# IMPORTANT

This circular is for information purpose only and does not constitute an invitation or offer to acquire or subscribe for securities of iSteelAsia.com Limited.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant, or other professional adviser.

**If you have sold or transferred** all your shares in iSteelAsia.com Limited, you should at once hand this circular to the purchaser or to the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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*iSteelAsia.com*

# iSteelAsia.com Limited

*(Incorporated in Bermuda with limited liability)*

## ACQUISITION OF SHARES IN

## THE EXISTING ISSUED SHARE CAPITAL OF

## ACROSSASIA MULTIMEDIA LIMITED

## (MAJOR TRANSACTION)

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This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for 7 days from the date of its posting and on the website of iSteelAsia.com Limited at www.isteelasia.com.

15th August 2001

# CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast further profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

# CONTENTS

| | |
|---|---|
| "AAM" | AcrossAsia Multimedia Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on GEM |
| "AAM Group" | AAM and its subsidiaries |
| "AAM Share(s)" | share(s) of HK$0.10 each in the existing issued share capital of AAM |
| "Acquisition" | the acquisition of the Acquisition Shares |
| "Acquisition Shares" | 11,423,506 AAM Shares in the existing issued share capital of AAM |
| "Actfield" | Actfield Limited, a company incorporated in the British Virgin Islands with limited liability and which is independent of and not connected with the directors, chief executives, substantial shareholders and the management shareholders of the Company and their respective Associates |
| "Associates" | shall have the same meaning as defined in the GEM Listing Rules |
| "Board" | the board of Directors |
| "Business Day" | a day on which banks are open for business in Hong Kong (excluding Saturdays and any day on which the black rainstorm warning or typhoon signal number 8 (or above) is hoisted after 9:30 a.m.) |
| "Company" | iSteelAsia.com Limited, a company incorporated in Bermuda with limited liability |
| "Consideration Shares" | 110,000,000 new Shares which were issued pursuant to the Sale and Purchase and Subscription Agreement, and rank pari passu with all Shares in issue |
| "Director(s)" | the director(s) of the Company |
| "GEM" | the Growth Enterprise Market of the Stock Exchange |
| "GEM Listing Rules" | the Rules Governing the Listing of Securities on GEM |
| "Grand Bridge" | Grand Bridge Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability, which is a wholly-owned subsidiary of iMerchants Group Limited |
| "Group" | the Company and its subsidiaries |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Hong Kong" | the Hong Kong Special Administrative Region of the People's Republic of China |

| | |
|---|---|
| "Huge Top" | Huge Top Industrial Ltd., a company incorporated in the British Virgin Islands with limited liability, which is the controlling shareholder of VSC and beneficially interested in approximately 57.59% of the issued share capital of VSC as at the Latest Practicable Date |
| "Initial Management Shareholders" | shall have the same meaning as defined in the GEM Listing Rules |
| "Issue Price" | the issue price of HK$0.205 per Share |
| "Latest Practicable Date" | 9th August, 2001, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein |
| "Oboe" | Oboe Development Trading Limited, a company incorporated in the British Virgin Islands with limited liability, which is 100% owned by Mr. Moses Kwok Tai Tsang, a non-executive director of the Company within the preceding twelve-month period |
| "Right Action" | Right Action Offshore Inc., a company incorporated in the British Virgin Islands with limited liability, which is wholly owned by Mr. Andrew Cho Fai Yao, a director and the chairman of the Company |
| "Sale and Purchase and Subscription Agreement" | the agreement dated 17th July, 2001 entered into between the Company and Actfield in respect of the Acquisition |
| "SDI Ordinance" | Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) |
| "Share(s)" | share(s) of HK$0.10 each in the share capital of the Company |
| "Shareholder(s)" | holder(s) of the Shares |
| "Share Option Scheme" | the share option scheme conditionally approved and adopted by the Company on 13th April, 2000 |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "TN Development" | TN Development Limited, a company incorporated in the British Virgin Islands with limited liability |
| "VSC" | Van Shung Chong Holdings Limited, a company incorporated in Bermuda, the securities of which are listed on the Stock Exchange |
| "VSC BVI" | Van Shung Chong (B.V.I.) Limited, a company incorporated in the British Virgin Islands with limited liability, which is a wholly-owned subsidiary of VSC |

iSteelAsia.com

# iSteelAsia.com Limited

*(Incorporated in Bermuda with limited liability)*

*Board of Directors:*
Andrew Cho Fai Yao *(Chairman and Chief Executive Officer)*
Miriam Che Li Yao *(Deputy Chairman)*
Drina C. Yue *(Chief Operating Officer)*
Lena Foo*
Daniel Takuen Shih*
Ralph David Oppenheimer*
Yeung Kwok Keung**
Philip King Huen Ma**

*Registered office:*
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Head office and principal place of business:*
52nd Floor, The Center
99 Queen's Road Central
Hong Kong

* *Non-executive Directors*
** *Independent Non-executive Directors*

15th August, 2001

*To the Shareholders*

Dear Sir or Madam,

## ACQUISITION OF SHARES IN THE EXISTING ISSUED SHARE CAPITAL OF ACROSSASIA MULTIMEDIA LIMITED (MAJOR TRANSACTION)

### INTRODUCTION

It was announced on 17th July, 2001 that the Company and Actfield entered into the Sale and Purchase and Subscription Agreement pursuant to which the Company had conditionally agreed to acquire 11,423,506 AAM Shares at approximately HK$1.974 per AAM Share and issue and allot 110,000,000 Shares at the Issue Price to Actfield as the consideration for the Acquisition.

All conditions under the Sale and Purchase and Subscription Agreement have been fulfilled and the Acquisition was completed on 3rd August, 2001.

Since the consideration of the Acquisition accounts for more than 50% of the Company's net tangible assets as disclosed in its latest published annual report for the year ended 31st March, 2001, the Acquisition constitutes a major transaction of the Company for the purpose of the GEM Listing Rules and must be made conditional on the receipt of the approval of the Shareholders. Such approval has been obtained by the Company in writing by a closely allied group of Shareholders consisting of VSC BVI, Right Action, Huge Top and TN Development on 27th July, 2001. As at 27th July, 2001, the closely allied group of Shareholders together held approximately 53.10% of the then issued share capital of the Company. These Shareholders together held more than 50% in nominal value of the securities giving the right to attend and vote at a general meeting of the Shareholders. As such, a general meeting will not be held to consider the Acquisition.

The purpose of this circular is to provide the Shareholders with further information on the Sale and Purchase and Subscription Agreement.

## SALE AND PURCHASE AND SUBSCRIPTION AGREEMENT

On 17th July, 2001, (i) the Company, as issuer; and (ii) Actfield, as subscriber entered into the Sale and Purchase and Subscription Agreement pursuant to which the Company has agreed to acquire 11,423,506 AAM Shares and issue and allot 110,000,000 Shares to Actfield as the consideration for the Acquisition.

### Consideration and payment terms of the Acquisition

The consideration payable by the Company for the Acquisition amounted to HK$22,550,000 which was satisfied in full by the issue and allotment of the Consideration Shares to Actfield at the Issue Price on the date of completion of the Sale and Purchase and Subscription Agreement, being 3rd August, 2001. The Consideration Shares were issued under the general mandate to issue Shares granted to the Directors on 28th July, 2000.

The Consideration Shares represent approximately 7.0% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. The consideration was determined after arm's length negotiations between the parties and with reference to the respective average closing prices of AAM Shares and of the Shares for the last 30 trading days ended 12th July, 2001 without any premium or discount. The consideration for the Acquisition will not result in a change of control of the Company.

The Issue Price represents a premium of approximately 0.3% to the average closing prices of the Shares during the last ten trading days ended the date of the Sale and Purchase and Subscription Agreement and represents a premium of 2.5% to the closing price of the Shares on the date of the Sale and Purchase and Subscription Agreement.

**Conditions of the Sale and Purchase and Subscription Agreement**

Completion of the Sale and Purchase and Subscription Agreement was conditional upon the fulfillment of the following conditions, which have all been fulfilled on 30th July, 2001: —

1. the Stock Exchange having granted the listing of, and the permission to deal in, the Consideration Shares and a certified true copy of such approval having been delivered to Actfield; and

2. the Company having obtained all necessary approvals from its shareholders in accordance with the GEM Listing Rules and (i) a certified true copy of a confirmation from Conyers Dill & Pearman (the Bermuda legal advisers of the Company) that the Company has obtained Bermuda Monetary Authority's approval (which is valid as of the date of the said confirmation) to allot and issue new Shares up to the maximum of its authorised share capital from time to time, and (ii) a certified true copy of the relevant shareholders' resolution or a certified true copy of a written certificate from the Shareholders (who together hold more than 50% of the issued share capital of the Company) given in accordance with Rule 19.39 of the GEM Listing Rules having been delivered to Actfield.

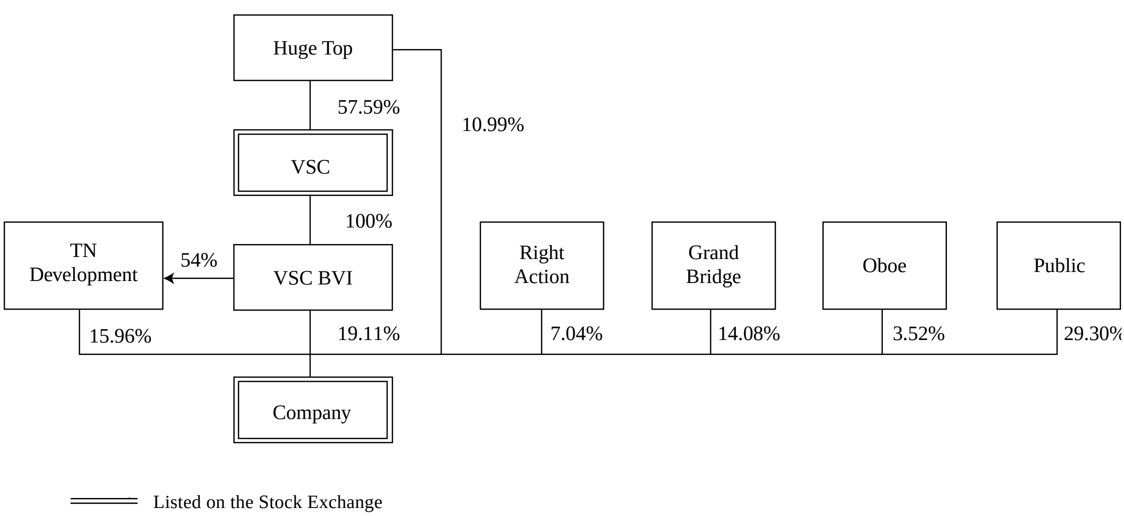
**Completion of the Acquisition**

Completion of the Acquisition took place on 3rd August, 2001, being the fourth Business Day after all the relevant conditions were satisfied.

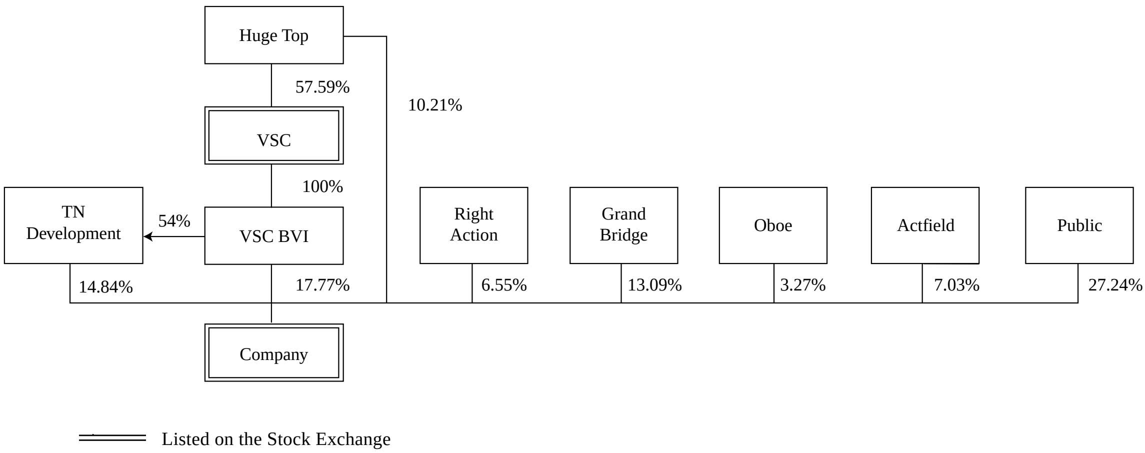
## SHAREHOLDING STRUCTURE OF THE COMPANY

The simplified shareholding structures of the Company before and after completion of the Acquisition are set out as follows:

**Immediately before completion of the Acquisition**



**Immediately after completion of the Acquisition**




## INFORMATION ON AAM

The AAM Group is principally engaged in the provision of broadband access, content, e-commerce, information technology services, and Internet solutions services in Asia. AAM Shares are listed on GEM. The Acquisition Shares represent approximately 0.23% of the existing issued share capital of AAM.

Set out below is the audited consolidated profit/(loss) before and after tax and minority interests of the AAM Group for the year ended 31st December, 2000 (together with comparative figures) as extracted from AAM's annual report for the year ended 31st December, 2000:

| | **Year ended 31st December,** | |
|---|---|---|
| | **1999** | **2000** |
| | *HK$ million* | *HK$ million* |
| Net profit/(loss) before tax and minority interests | 23 | (118) |
| Net profit/(loss) after tax and minority interests | 4 | (172) |

As at 31st December, 2000, the audited consolidated net tangible assets of the AAM Group were about HK$580.5 million.

## INFORMATION ON THE COMPANY AND REASONS FOR THE ACQUISITION

The Company is principally engaged in the provision of trading and other value-added services for participants in the supply chain of the steel industry. The Company is the operator of the iSteelAsia.com website which provides an Internet-based platform for buyers to source steel products and sellers to sell steel products with online access to steel industry information and a range of value-added services such as insurance and trade finance.

AAM is involved in the technology sector, including broadband access, e-commerce, IT services and Internet solutions providers, and its Initial Management Shareholders and certain other shareholders have various business contacts in Indonesia, Greater China, and other parts of Asia. Although the Company is only acquiring approximately 0.23% of equity interest in AAM, the Directors believe that the Acquisition is the first step of forming a strategic relationship with AAM. Since both the Company and AAM are involved in Internet related businesses, the Company wishes to utilise such strategic relationship with AAM to establish a steel trading platform in the region, which aligns with the business objectives of the Company as stated in the Company's prospectus dated 14th April, 2000.

The Directors (including independent non-executive directors) believe that the Acquisition is on normal commercial terms and such terms are fair and reasonable and in the interests of the Shareholders and the Company as a whole.

The Acquisition will strengthen the asset and capital bases of the Company but is not expected to have a material effect on the Company's earnings in the near future.

## GENERAL

The Acquisition constitutes a major transaction of the Company pursuant to the GEM Listing Rules and must be made conditional on the receipt of the approval of the Shareholders. Such approval has been obtained by the Company in writing by a closely allied group of Shareholders consisting of VSC BVI, Right Action, Huge Top and TN Development on 27th July, 2001. As at 27th July, 2001, the closely allied group of Shareholders together held approximately 53.10% of the then issued share capital of the Company. These Shareholders together held more than 50% in nominal value of the securities giving the right to attend and vote at a general meeting of the Shareholders. As such, a general meeting will not be held to consider the Acquisition.

Approval from the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares was obtained on 30th July, 2001.

By Order of the Board
**iSteelAsia.com Limited**
**Drina C. Yue**
*Director*

## 1. FINANCIAL STATEMENTS

The following are the audited financial statements of the Group for the three years ended 31st March, 2001, together with accompanying notes, extracted from the Company's annual report for the year ended 31st March, 2001 and from the prospectus of the Company dated 14th April, 2000:—

**Consolidated Income Statement**
*For the year ended 31st March, 2001*
*(Expressed in Hong Kong dollars)*

| | Note | 2001 $'000 | 2000 $'000 | 1999 $'000 |
|---|---|---|---|---|
| Turnover | | | | |
| — Sales | | 169,737 | 177,503 | 114,652 |
| — Commission and service fees | | 13,592 | 2,571 | 999 |
| | 4 | 183,329 | 180,074 | 115,651 |
| Cost of inventories sold | 3 | (164,093) | (158,474) | (106,732) |
| Staff costs | | (34,308) | (8,206) | (745) |
| Research and development expenses | | (24,849) | (2,320) | — |
| Marketing and branding expenses | | (13,836) | (5,340) | — |
| Amortisation of website development costs | | (3,160) | (330) | — |
| Write-off and impairment loss of website development costs | | (32,015) | — | — |
| Depreciation of furniture and equipment | | (551) | (16) | (8) |
| Other operating expenses | | (23,379) | (11,122) | (4,867) |
| (Loss) Profit from operations | | (112,862) | (5,734) | 3,299 |
| Interest income | | 4,309 | 91 | — |
| Interest expense | | (1,090) | — | — |
| Share issuance expenses written off | | (2,391) | — | — |
| (Loss) Profit before taxation | 5 | (112,034) | (5,643) | 3,299 |
| Taxation | 7 | (20) | (1,169) | (276) |
| (Loss) Profit attributable to shareholders | 8 | (112,054) | (6,812) | 3,023 |
| Dividends | | — | (9,000) | — |
| (Accumulated losses) Retained profit, beginning of year | | (12,382) | 3,430 | 407 |
| (Accumulated losses) Retained profit, end of year | | (124,436) | (12,382) | 3,430 |
| (Loss) Earnings per share - Basic | 9 | (7.75) cents | (0.53) cents | 0.24 cents |

A separate statement of recognised gains and losses is not presented because there were no recognised gains or losses other than the (loss) profit attributable to shareholders.

**Balance Sheets**
*As at 31st March, 2001*
*(Expressed in Hong Kong dollars)*

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2001 | 2000 | 2001 | 2000 |
| | *Note* | *$'000* | *$'000* | *$'000* | *$'000* |
| NON-CURRENT ASSETS | | | | | |
| Furniture and equipment | *10* | 3,223 | 268 | — | — |
| Website development costs | *11* | 3,788 | 3,762 | — | — |
| Long-term investment | *12* | 24,974 | — | — | — |
| Investment in subsidiaries | *13.b* | — | — | 15,030 | — |
| Total non-current assets | | 31,985 | 4,030 | 15,030 | — |
| CURRENT ASSETS | | | | | |
| Inventories | *14* | 8,997 | 4,795 | — | — |
| Deferred share issuance expenses | | — | 18,018 | — | — |
| Prepayments and deposits | | 1,173 | 373 | 4 | — |
| Trade receivables | | 27,616 | 25,345 | — | — |
| Cash and bank deposits | | 28,516 | — | 8,567 | — |
| Total current assets | | 66,302 | 48,531 | 8,571 | — |
| CURRENT LIABILITIES | | | | | |
| Short-term bank borrowings | *15* | (24,489) | (25,000) | — | — |
| Bills payable | | (10,374) | — | — | — |
| Due to related companies | *3.a* | (23,930) | (3,882) | — | — |
| Other payables | | (7,294) | — | — | — |
| Accruals | | (3,488) | (2,247) | (111) | — |
| Receipts in advance | | (3,305) | — | — | — |
| Payable for share issuance expenses | | — | (15,317) | — | — |
| Shareholder loan, current portion | | — | (14,803) | — | — |
| Taxation payable | | (1,693) | (1,693) | — | — |
| Total current liabilities | | (74,573) | (62,942) | (111) | — |
| Net current (liabilities) assets | | (8,271) | (14,411) | 8,460 | — |
| Total assets less current liabilities | | 23,714 | (10,381) | 23,490 | — |
| NON-CURRENT LIABILITIES | | | | | |
| Shareholder loan, non-current portion | | — | (2,000) | — | — |
| Net assets (liabilities) | | 23,714 | (12,381) | 23,490 | — |
| CAPITAL AND RESERVES | | | | | |
| Share capital | *17* | 145,450 | 1 | 145,450 | — |
| Reserves | *19* | 2,700 | — | — | — |
| Accumulated losses | | (124,436) | (12,382) | (121,960) | — |
| Shareholders' equity (deficit) | | 23,714 | (12,381) | 23,490 | — |

Approved by the Board of Directors on 1st June, 2001:

**ANDREW CHO FAI YAO**
*Chairman*

**DRINA C. YUE**
*Director*

**Consolidated Cash Flow Statement**
*For the year ended 31st March, 2001*
*(Expressed in Hong Kong dollars)*

| | Note | 2001 $'000 | 2000 $'000 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Loss before taxation | | (112,034) | (5,643) |
| Interest income | | (4,309) | (91) |
| Interest expense | | 1,090 | — |
| Depreciation of furniture and equipment | | 551 | 16 |
| Amortisation of website development costs | | 3,160 | 330 |
| Write-off and impairment loss of website development costs | | 32,015 | — |
| Share issuance expenses written off | | 2,391 | — |
| Increase in inventories | | (4,202) | (2,497) |
| Increase in prepayments and deposits | | (800) | (373) |
| Increase in trade receivables | | (2,271) | (8,609) |
| Increase in bills payable | | 10,374 | — |
| Increase in due to related companies | | 20,048 | 359 |
| Increase in other payables | | 7,294 | — |
| Increase in accruals | | 1,241 | 5,710 |
| Increase in receipts in advance | | 3,305 | — |
| Net cash outflow from operating activities | | (42,147) | (10,798) |
| TAXATION | | | |
| Mainland China enterprise income tax paid | | (20) | — |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest received | | 4,309 | 91 |
| Interest paid | | (1,090) | — |
| Dividends paid | | — | (9,000) |
| | | 3,219 | (8,909) |
| INVESTING ACTIVITIES | | | |
| Additions of furniture and equipment | | (3,506) | (238) |
| Additions of website development costs | | (35,201) | (4,092) |
| Increase in long-term investment | | (24,974) | — |
| | | (63,681) | (4,330) |
| Net cash outflow before financing activities | | (102,629) | (24,037) |
| FINANCING ACTIVITIES | 20.a | | |
| Issue of shares | | 165,600 | — |
| Share issuance expenses | | (23,340) | (2,701) |
| Issue of shares by a subsidiary | | 3,900 | 1 |
| New trust receipts bank loans | | 33,221 | — |
| Repayment of trust receipts bank loans | | (8,732) | — |
| (Decrease) Increase in shareholder loan | | (14,504) | 1,717 |
| | | 156,145 | (983) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 53,516 | (25,020) |
| CASH AND CASH EQUIVALENTS, beginning of year | | (25,000) | 20 |
| CASH AND CASH EQUIVALENTS, end of year | 20.b | 28,516 | (25,000) |

**Notes to the Financial Statements**

*(Amounts expressed in Hong Kong dollars unless otherwise stated)*

**1. GROUP REORGANISATION AND BASIS OF PRESENTATION**

iSteelAsia.com Limited (the "Company") was incorporated in Bermuda on 10th February, 2000 as an exempted company under the Companies Act 1981 of Bermuda. Its shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 20th April, 2000.

On 13th April, 2000, the Company became the holding company of the other companies comprising the group pursuant to a group reorganisation (the "Reorganisation") which included exchanges of shares. As part of the Reorganisation, the assets, liabilities and the businesses of VSC (Far East) Limited and the Steel Trading Division of Van Shung Chong Hong Limited (both VSC (Far East) Limited and Van Shung Chong Hong Limited were wholly owned by Van Shung Chong (B.V.I.) Limited, a substantial shareholder of the Company), were transferred to the Group effective from April 2000. Thereafter VSC (Far East) Limited and the Steel Trading Division of Van Shung Chong Hong Limited ceased their steel trading businesses.

The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year ended 31st March, 2001, rather than from the date on which the Reorganisation was completed. The comparative figures as at and for the year ended 31st March, 2000 have been presented on the same basis.

**2. PRINCIPAL ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). Principal accounting policies are summarised below:

**a. Basis of measurement**

The financial statements have been prepared on the historical cost basis.

**b. Basis of consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiaries (the "Group"). The results of subsidiaries acquired or disposed of during the year (other than those included in the Reorganisation described in Note 1 above) are consolidated from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

**c. Subsidiaries**

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued voting share capital as a long-term investment. In the Company's financial statements, investment in subsidiaries is stated at cost less provision for any impairment in value, while income from subsidiaries is recorded to the extent of dividends received and receivable.

**d. Turnover and revenue recognition**

Turnover comprises (i) the net invoiced value of merchandise sold after allowances for returns and discounts, (ii) commission from procurement and online steel trading services, and (iii) service fees.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Sales revenue is recognised when the merchandise is shipped and title has passed. Commission from procurement and online steel trading services and service fees are recognised upon provision of the services. Interest income is recognised on a time-proportion basis on the principal outstanding and at the rate applicable.

Advance payments received from customers prior to delivery of merchandise and provision of services are recorded as receipts in advance.

**e. Taxation**

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

**f. Research and development expenditures**

Research expenditures are written off as incurred. Development expenditures are charged against income in the period incurred except for those incurred for specific projects where recoverability can be foreseen with reasonable assurance and comply with the following criteria: (i) the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably; (ii) the technical feasibility of the product or process can be demonstrated; (iii) there is an intention to produce and market, or use, the product or process; (iv) the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness can be demonstrated; and (v) adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process, are capitalised. Capitalised development expenditures are amortised on a straight-line basis over the period in which the related products are expected to be sold or the processes are to be used.

**g. Marketing and branding costs**

The costs of marketing and branding are expensed as incurred.

**h. Staff retirement benefits**

The costs of staff retirement benefits are recognised as an expense in the period in which they are incurred.

**i. Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred.

**j. Furniture and equipment and depreciation**

Furniture and equipment are stated at cost less accumulated depreciation. Major expenditures on modifications and betterments of furniture and equipment which will result in future economic benefits are capitalised, while expenditures on repairs and maintenance are expensed when incurred. Depreciation is provided on a straight-line basis at 20% per annum to write off the cost of each asset over its estimated useful life.

The carrying value of furniture and equipment is assessed periodically or when factors indicating an impairment are present. Individual items of furniture and equipment carried at cost less accumulated depreciation are reduced to their recoverable amount if this is lower than net book value, with the difference charged to the income statement. In determining the recoverable amount of individual items of furniture and equipment, expected future cash flows are not discounted to their present value.

Gains and losses on disposal of furniture and equipment are recognised in the income statement based on the net disposal proceeds less the then carrying amount of the assets.

**k. Website development costs**

Costs directly associated with the development of specific websites, which include external direct costs of materials and services consumed in developing or obtaining an internal-use website, are capitalised. The capitalisation of such costs ceases no later than the point at which the websites are substantially completed and ready for their intended purpose. Website development costs are amortised on a straight-line basis over a period of three years, which represents the expected useful life of the website. The Company's Directors review and evaluate the recoverability of the carrying value of the website development costs periodically by reference to certain external factors, including, but not limited to, anticipated future revenue to be generated from the website and changes in technology.

Research and other development costs relating to website development and website maintenance costs are expensed as incurred.

**l. Long-term investment**

Long-term investment is stated at cost less provision for any impairment in value. Income from long-term investment is accounted for to the extent of dividends received or receivable.

The carrying amount of the investment is reviewed at each balance sheet date to assess whether the fair value has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced and the reduction is recognised as an expense in the income statement unless there is evidence that the decline is temporary. Provision against the carrying value of the investment is reversed to the income statement when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist in the foreseeable future.

Upon disposal of the investment, any profit and loss thereon is accounted for in the income statement.

**m. Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method of costing and includes costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices in the ordinary course of business less further costs expected to be incurred to disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**n. Operating leases**

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are recognised as an expense on a straight-line basis over the period of the relevant leases.

**o. Foreign currency translation**

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations (“functional currencies”). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions; monetary assets and liabilities denominated in other currencies are translated into their respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statements of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; income and expense items are translated into Hong Kong dollars at the average applicable rates during the year. Exchange differences arising from such translation are dealt with as movements of cumulative translation adjustments.

**3. RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

a. Details of amounts due to related companies are:

| **Name of related company** | **2001** | **2000** |
|---|---|---|
| | *$'000* | *$'000* |
| Van Shung Chong Hong Limited (i) | 17,087 | — |
| iMerchants Limited (ii) | 6,843 | 3,882 |
| | 23,930 | 3,882 |

*Notes:*

(i) Van Shung Chong Hong Limited is wholly owned and controlled by Van Shung Chong (B.V.I.) Limited, a substantial shareholder of the Company. The amount due to Van Shung Chong Hong Limited arose primarily from purchases of inventories and was unsecured and bore interest at commercial rates.

(ii) iMerchants Limited is a subsidiary of iMerchants Group Limited, the holding company of a substantial shareholder of the Company. The amount due to iMerchants Limited arose from the website development and maintenance services provided by iMerchants Limited and was unsecured, non-interest bearing and without pre-determined repayment terms.

b. The Group had the following transactions with related parties:

| **Name of related party/Nature of transaction** | **2001** | **2000** |
|---|---|---|
| | *$'000* | *$'000* |
| Van Shung Chong Hong Limited (i) | | |
| — Commission from procurement services earned by the Group | 1,373 | 1,189 |
| — Purchases made by the Group | 118,756 | 158,473 |
| — Interest charged to the Group | 923 | — |
| — Administrative fees charged to the Group | 360 | 360 |
| CFY Enterprises Limited (i) | | |
| — Rental expenses charged to the Group | 1,860 | — |
| — Rates, management fees and utilities charges charged to the Group | 464 | — |
| iMerchants Limited (ii) | | |
| — Website development costs charged to the Group | 950 | 4,092 |
| — Website maintenance costs charged to the Group | 7,588 | 210 |

*Notes:*

(i) Van Shung Chong Hong Limited and CFY Enterprises Limited are wholly owned and controlled by Van Shung Chong (B.V.I.) Limited, a substantial shareholder of the Company.

(ii) iMerchants Limited is a subsidiary of iMerchants Group Limited, the holding company of a substantial shareholder of the Company.

## 4. TURNOVER AND REVENUE

Analysis of turnover and revenue by product category is:

| | 2001<br>*$'000* | 2000<br>*$'000* |
|---|---|---|
| Sales of merchandise | 169,737 | 177,503 |
| Commission from procurement services | 4,305 | 1,189 |
| Commission from online steel trading services | 7,379 | 1,382 |
| Service fees | 1,908 | — |
| Total turnover | 183,329 | 180,074 |
| Interest income | 4,309 | 91 |
| Total revenue | 187,638 | 180,165 |

Sales to the top five customers accounted for approximately 79% (2000 - 71%) of the Group's turnover for the year ended 31st March, 2001.

Analysis of turnover by geographical location* is as follows:

| | 2001<br>*$'000* | 2000<br>*$'000* |
|---|---|---|
| Mainland China | 169,174 | 162,285 |
| Macau | 5,114 | 16,508 |
| Hong Kong, Taiwan, Singapore and the Philippines | 5,719 | 360 |
| Others | 3,322 | 921 |
| Total revenue | 183,329 | 180,074 |

* Turnover by geographical location is determined mainly on the basis of the destination of shipments of merchandise for sales of merchandise, location of sellers for commission income and location of customers for service fees.

## 5. LOSS BEFORE TAXATION

Loss before taxation was determined after charging and crediting the following items:

| | 2001 | 2000 |
|---|---|---|
| | *$'000* | *$'000* |
| **After charging:** | | |
| Provision for bad and doubtful debts | 1,142 | 1,686 |
| Interest expense | | |
| — bank loans wholly repayable within one year | 167 | — |
| — amount due to a related company (Note 3.b) | 923 | — |
| Operating lease rental in respect of premises paid to | | |
| — a related company (Note 3.b) | 1,860 | 624 |
| — others | 531 | 50 |
| Auditors' remuneration | 500 | 338 |
| **After crediting:** | | |
| Interest income | | |
| — bank deposits | 3,332 | — |
| — overdue trade receivables | 977 | 91 |
| Net exchange gain | 9 | 71 |

## 6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' emoluments are:

| | 2001 | 2000 |
|---|---|---|
| | *$'000* | *$'000* |
| Fees for executive directors | — | — |
| Fees for non-executive directors | 50 | — |
| Other emoluments for executive directors | | |
| — Basic salaries and allowances | 5,535 | 544 |
| — Sign-on bonus | — | 778 |
| — Bonuses* | 780 | 300 |
| — Contributions to pension scheme | 15 | — |
| Other emoluments for non-executive directors | — | — |
| | 6,380 | 1,622 |

* The executive directors were entitled to discretionary bonuses, with an executive director entitled to a contractual bonus of approximately $780,000 during the year ended 31st March, 2001 (2000 - Nil).

No director waived any emoluments during the year. No (2000 - $778,000) incentive payment for joining the Group or compensation for loss of office was paid or payable to any director during the year.

Analysis of directors' emoluments by number of directors and emolument range is as follows:

| | 2001 | 2000 |
|---|---|---|
| Non-executive directors | | |
| — Nil to $1,000,000 | 6 | 5 |
| Executive directors | | |
| — Nil to $1,000,000 | — | 3 |
| — $1,000,001 to $1,500,000 | 1 | — |
| — $2,500,001 to $3,000,000 | 2 | — |
| | 9 | 8 |

The basic salary of an executive director has been reduced from $240,000 to $120,000 per month during the year and the basic salaries of two executive directors have been reduced from approximately $120,000 per month as at 31st March, 2001 to $90,000 per month subsequent to 31st March, 2001.

b. Details of emoluments of the five highest paid individuals (including directors and other employees) are:

| | 2001 | 2000 |
|---|---|---|
| | *$'000* | *$'000* |
| Basic salaries and allowances | 8,723 | 1,364 |
| Sign-on bonuses | 1,170 | 1,168 |
| Bonuses | 780 | 1,009 |
| Contributions to pension scheme | 58 | 27 |
| | 10,731 | 3,568 |

Two (2000 - two) of the five highest paid individuals were directors of the Company, whose emoluments are included in Note 6.a.

During the year, approximately $1,170,000 (2000 - $1,168,000) was paid to two of the five highest paid individuals as an inducement to join the Group.

Analysis of emoluments of the five highest paid individuals (including directors and employees) by number of individuals and emolument range is as follows:

| | 2001 | 2000 |
|---|---|---|
| Nil to $1,000,000 | — | 5 |
| $1,500,001 to $2,000,000 | 3 | — |
| $2,500,001 to $3,000,000 | 2 | — |
| | 5 | 5 |

One of the five highest paid individuals left the Group during the year and the basic salaries of the remaining four highest paid individuals have been reduced from a range of approximately $90,000 to $134,000 per month as at 31st March, 2001 to $90,000 per month subsequent to 31st March, 2001. As at the date of approval of these financial statements, there are no employees with a monthly basic salary in excess of $90,000.

## 7. TAXATION

Taxation consisted of:

| | 2001 | 2000 |
|---|---|---|
| | *$'000* | *$'000* |
| Current taxation | | |
| — Hong Kong profits tax | — | 1,169 |
| — Mainland China enterprise income tax | 20 | — |
| | 20 | 1,169 |

The Company is exempted from taxation in Bermuda until 2016. No provision for Hong Kong profits tax has been provided as the Group had no assessable profit during the year (2000 - Hong Kong profits tax was provided at the rate of 16% on the estimated assessable profit arising in or derived from Hong Kong). A subsidiary operated in Mainland China is subject to Mainland China enterprise income tax at the rate of 33% (2000 - Nil).

## 8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders included a loss of approximately $121,960,000 (2000 - Nil) dealt with in the financial statements of the Company.

## 9. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31st March, 2001 is based on the loss attributable to shareholders of approximately $112,054,000 (2000 - $6,812,000) and the weighted average of approximately 1,445,430,000 (2000 - 1,280,000,000) ordinary shares deemed to be issued during the year, on the basis of presentation relating to the Reorganisation as described in Note 1.

No diluted loss per share is presented as the outstanding employee share options were anti-dilutive.

## 10. FURNITURE AND EQUIPMENT

Movements of furniture and equipment (consolidated) were:

| | 2001 | | | 2000 |
|---|---|---|---|---|
| | Leasehold improvements | Furniture and office equipment | Total | Total |
| | *$'000* | *$'000* | *$'000* | *$'000* |
| **Cost** | | | | |
| Beginning of year | — | 297 | 297 | 41 |
| Additions | 214 | 3,292 | 3,506 | 238 |
| Transfer from a related company | — | — | — | 18 |
| End of year | 214 | 3,589 | 3,803 | 297 |
| **Accumulated depreciation** | | | | |
| Beginning of year | — | 29 | 29 | 13 |
| Provision for the year | 28 | 523 | 551 | 16 |
| End of year | 28 | 552 | 580 | 29 |
| **Net book value** | | | | |
| End of year | 186 | 3,037 | 3,223 | 268 |
| Beginning of year | — | 268 | 268 | 28 |

## 11. WEBSITE DEVELOPMENT COSTS

Movements of website development costs (consolidated) were:

| | 2001 | 2000 |
|---|---|---|
| | *$'000* | *$'000* |
| **Cost** | | |
| Beginning of year | 4,092 | — |
| Additions | 35,201 | 4,092 |
| Write-off | (5,673) | — |
| Provision for impairment loss | (27,100) | — |
| End of year | 6,520 | 4,092 |
| **Accumulated amortisation** | | |
| Beginning of year | 330 | — |
| Amortisation | 3,160 | 330 |
| Write-off | (758) | — |
| End of year | 2,732 | 330 |
| **Net book value** | | |
| End of year | 3,788 | 3,762 |
| Beginning of year | 3,762 | — |

During the year, the Company's Directors reviewed and evaluated the recoverability of the carrying value of the website development costs and determined to provide for an impairment loss of approximately $27,100,000 (2000 - Nil).

## 12. LONG-TERM INVESTMENT

Long-term investment represents the cost of approximately 3.5% equity interest in Stemcor Holdings Limited ("Stemcor"), a company incorporated in the United Kingdom, which is principally engaged in the trading of steel products and raw materials and the provision of specialist services to the steel and metals industries.

In December 2000, the Group entered into a share subscription agreement (the "Share Subscription Agreement") with Stemcor whereby the Group agreed to subscribe for certain shares in Stemcor at a consideration of US$3,000,000 ("Tranche A Shares"). Stemcor also agreed to grant two options to the Group to subscribe for additional shares in Stemcor for total consideration of US$5,000,000 ("Tranche B Option") and US$8,000,000 ("Tranche C Option"), respectively.

As at 31st March, 2001, the Group had paid US$3,000,000 to Stemcor in return for 209,895 unlisted ordinary shares of £1.00 each in Stemcor (i.e. the Tranche A Shares), representing approximately 3.5% of the equity of Stemcor. Pursuant to the Share Subscription Agreement, the number of Tranche A Shares will be adjusted such that the acquisition price will be based on the higher of (i) 10 times the audited consolidated net profit after taxation from the steel trading operation of Stemcor and its subsidiaries for the year ended 31st December, 2000 as agreed between the Group and Stemcor, and (ii) 1.5 times the audited consolidated net assets of Stemcor and its subsidiaries as at 31st

December, 2000 as agreed between the Group and Stemcor. The audited consolidated net profit after taxation from the steel trading operation and the audited consolidated net assets of Stemcor and its subsidiaries as at 31st December, 2000 have not been agreed between the Group and Stemcor, for the purpose of the adjustment of the number of Tranche A Shares, up to the date of approval of these financial statements.

Under the Tranche B Option and the Tranche C Option, the Group has the right to subscribe for shares in Stemcor for total consideration of US$5,000,000 and US$8,000,000, respectively, according to the agreed schedule in 2001. The number of shares that may be subscribed by the Group under the Tranche B Option and the Tranche C Option will be determined based on the higher of (i) 10 times the audited consolidated net profit after taxation from the steel trading operation of Stemcor and its subsidiaries for the year ended 31st December, 2000 as agreed between the Group and Stemcor, and (ii) 1.5 times the audited consolidated net assets of Stemcor and its subsidiaries as at 31st December, 2000 as agreed between the Group and Stemcor.

Under the Share Subscription Agreement, Stemcor has granted to the Group a put option under which the Group may require Stemcor to repurchase all of the Tranche A Shares subscribed by the Group and the shares to be subscribed under the Tranche B Option for US$3,000,000 and US$5,000,000, respectively. The put option will be exercisable by the Group no earlier than the date on which the amount of shareholders' equity of Stemcor falls below £15,000,000 as shown in the management accounts of Stemcor from time to time or 30th April, 2002, which ever is earlier, and no later than 31st October, 2002. The Group's rights to the put option have been pledged as collateral for certain of the Group's banking facilities (see Note 23).

The Company's Directors are of the opinion that the underlying value of the long-term investment is not less than its carrying value as at 31st March, 2001.

## 13. OPERATIONS AND SUBSIDIARIES

### a. Operations

The Company is an investment holding company. Its subsidiaries are principally engaged in the trading of steel products, provision of procurement services and operation of an e-commerce vertical portal business for the provision of online steel trading services. The e-commerce vertical portal business is characterised by rapid technological changes, new service development and evolving industry standards. Inherent in the Group's e-commerce vertical portal business are various risks and uncertainties, including limited operating history, uncertain profitability, history of losses and risks associated with the Internet and e-commerce businesses, and the ability to raise additional capital and financing.

**b. Investment in subsidiaries**

In the Company's balance sheet, investment in subsidiaries consists of:

| | 2001 *$'000* | 2000 *$'000* |
|---|---|---|
| Unlisted shares, at cost | 3,500 | — |
| Due from subsidiaries | 136,012 | — |
| Due to a subsidiary | (3,907) | — |
| | 135,605 | — |
| Provision for impairment in value | (120,575) | — |
| | 15,030 | — |

The amounts due from subsidiaries are unsecured, non-interest bearing and not repayable until the subsidiaries are financially capable to do so. The amount due to a subsidiary is unsecured, non-interest bearing and without pre-determined repayment terms.

The underlying value of the investment in subsidiaries is, in the opinion of the Company's Directors, not less than the carrying value as at 31st March, 2001.

Details of the subsidiaries as at 31st March, 2001 are:

| Name | Place of incorporation and operations | Issued and fully paid share capital | Percentage of equity interest attributable to the Group* | Principal activities |
|---|---|---|---|---|
| Business Across Business Asia Holdings (B.V.I.) Limited | British Virgin Islands | US$1 | 100% | Inactive since incorporation |
| Greater China Metal Limited (formerly known as MetalAsia Limited) | British Virgin Islands | US$1 | 100% | Inactive since incorporation |
| i-AsiaB2B Group Limited | British Virgin Islands | US$1 | 100% | Investment holding |
| iSteelAsia Holdings Limited | British Virgin Islands | US$10,000 | 100% | Investment holding |
| iSteelAsia (Hong Kong) Limited | Hong Kong | $2 | 100% | Operation of an e-commerce vertical portal business for online steel trading |
| iSteelAsia (India) Limited | British Virgin Islands | US$1 | 100% | Inactive since incorporation |

| Name | Place of incorporation and operations | Issued and fully paid share capital | Percentage of equity interest attributable to the Group* | Principal activities |
|---|---|---|---|---|
| iSteelAsia Limited | British Virgin Islands | US$10 | 100% | Operation of an e-commerce vertical portal business for online steel trading |
| iSteelAsia (Labuan) Limited | Malaysia | $1 | 100% | Inactive since incorporation |
| iSteelAsia (Stemcor) Holdings Limited | British Virgin Islands | US$1 | 100% | Investment holding |
| iSteel Holdings (B.V.I.) Limited | British Virgin Islands | US$1 | 100% | Investment holding |
| MetalAsia Holdings Limited | British Virgin Islands | US$2,000 | 100% | Investment holding |
| Metal Logistics Company Limited (formerly known as MetalAsia (Hong Kong) Limited) | Hong Kong | $4 | 100% | Trading of steel and provision of procurement services |
| Ya Gang Wang Co. Limited | British Virgin Islands (incorporation)/ Mainland China (operations) | US$1 | 100% | Provision of administrative and customer liaison services |

* The shares of i-AsiaB2B Group Limited are held directly by the Company. The shares of the other subsidiaries are held indirectly.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st March, 2001.

## 14. INVENTORIES

Inventories are stated at cost and consisted of steel rebars and rolled steel flat products for trading purposes.

## 15. SHORT-TERM BANK BORROWINGS

Short-term bank borrowings (consolidated) consist of:

| | **2001** *$'000* | **2000** *$'000* |
|---|---|---|
| Trust receipts bank loans | 24,489 | — |
| Short-term bank loan | — | 25,000 |
| | 24,489 | 25,000 |

Details of the Group's banking facilities are set out in Note 23.

**16. DEFERRED TAXATION**

As at 31st March, 2001, the Group had an unprovided deferred tax asset, primarily representing the tax effect of cumulative tax losses (subject to the approval of the relevant tax authority), amounting to approximately $10,743,000 (2000 - $1,681,000).

**17. SHARE CAPITAL**

Movements were:

| | **Number of shares** *'000* | **Nominal value** *$'000* |
|---|---|---|
| **Authorised** (ordinary shares of $0.10 each) | | |
| Upon incorporation of the Company (a) | 1,000 | 100 |
| Increase in authorised share capital (b) | 3,999,000 | 399,900 |
| As at 31st March, 2001 | 4,000,000 | 400,000 |
| **Issued and fully paid** (ordinary shares of $0.10 each) | | |
| Issue of shares (a and c) | 1,000 | 100 |
| Issue of shares arising from the Reorganisation (c) | 1,300 | 130 |
| Issue of shares through placements (d) | 172,000 | 17,200 |
| Issue of shares to the Company's underwriter (e) | 2,500 | 250 |
| Capitalisation of share premium (f) | 1,277,700 | 127,770 |
| As at 31st March, 2001 | 1,454,500 | 145,450 |

As at 31st March, 2000, the share capital shown on the consolidated balance sheet represented the aggregate share capital of the companies comprising the Group.

*Notes:*

a. Upon incorporation on 10th February, 2000, the Company had authorised share capital of $100,000, divided into 1,000,000 shares of $0.10 each. On 21st February, 2000, the Company allotted and issued 1,000,000 new shares of $0.10 each, credited as nil paid.

b. On 13th April, 2000, the Company's authorised share capital was increased from $100,000 to $400,000,000, by the creation of an additional 3,999,000,000 shares of $0.10 each ranking pari passu with the existing shares in all respects.

c. On 13th April, 2000, the Company allotted and issued 1,300,000 new shares of $0.10 each, credited as fully paid, and credited as fully paid at par of $0.10 each the 1,000,000 shares issued nil paid on 21st February, 2000 in exchange for the acquisition by the Company of the entire issued share capital of certain subsidiaries pursuant to the Reorganisation (see Note 1).

d. On 19th April, 2000, the Company issued 72,000,000 shares of $0.10 each at $0.80 per share to Li Ka Shing Foundation Limited, pursuant to a placing agreement dated 29th March, 2000, resulting in cash proceeds of $57,600,000. Also, on the same date, the Company issued 100,000,000 shares of $0.10 each at $1.08 per share to a number of investors through a private placement, resulting in net cash proceeds of approximately $79,259,000, after deducting share issuance expenses of approximately $28,741,000. The share issuance expenses of approximately $26,350,000 were offset against share premium and contributed surplus and approximately $2,391,000 was written off in the income statement.

e. On 19th April, 2000, the Company issued to BNP Prime Peregrine Securities Limited 2,500,000 shares of $0.10 each at $1.08 per share to settle the underwriting commission and management fee payable to BNP Prime Peregrine Securities Limited.

f. Immediately after the aforementioned placements (Note e), share premium of $127,770,000 was capitalised through the issuance of 1,277,700,000 shares of $0.10 each on a pro-rata basis to the Company's shareholders immediately before the placements.

## 18. EMPLOYEE SHARE OPTIONS

On 13th April, 2000, the Company approved a share option scheme under which its Board of Directors may, at its discretion, invite any employees of the Company or any of its subsidiaries, including any executive directors, to take up options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the issued share capital of the Company. The subscription price will be determined by the Company's Board of Directors and will be the highest of (i) the nominal value of the shares, (ii) the quoted closing price of the Company's shares on the trade day immediately preceding the date of offer of the options, and (iii) the average of the quoted closing prices of the Company's shares on the five trading days immediately preceding the date of offer of the options. The scheme became effective upon the listing of the Company's shares on 20th April, 2000.

Movements of employee share options during the year ended 31st March, 2001 were:

| | | | Number of share options | | | |
|---|---|---|---|---|---|---|
| **Date of grant** | **Exercise period** | **Subscription price per share** | **Beginning of year** *'000* | **Granted during the year** *'000* | **Lapsed during the year** *'000* | **End of year** *'000* |
| 3rd July, 2000 | 1st October, 2001 to 12th April, 2010 | $0.360 | — | 35,800 | (5,500) | 30,300 |
| 7th November, 2000 | 8th November, 2001 to 12th April, 2010 | $0.485 | — | 108,800 | (1,500) | 107,300 |
| | | | — | 144,600 | (7,000) | 137,600 |

**19. RESERVES**

Movements were:

| | 2001 | | | |
|---|---|---|---|---|
| | **Share premium** *$'000* | **Capital reserve** *$'000* | **Contributed surplus** *$'000* | **Total** *$'000* |
| **Consolidated** | | | | |
| Beginning of year | — | — | — | — |
| Capitalisation of shareholder loan by a subsidiary (a) | — | 2,299 | — | 2,299 |
| Issue of shares by a subsidiary (b) | — | 3,900 | — | 3,900 |
| Effect of the Reorganisation (c) | — | (229) | — | (229) |
| Premium on issue of shares through placements (Note 17.d) | 148,400 | — | — | 148,400 |
| Premium on issue of shares to the Company's underwriter (Note 17.e) | 2,450 | — | — | 2,450 |
| Share issuance expenses | (23,080) | (3,270) | — | (26,350) |
| Capitalisation of share premium (Note 17.f) | (127,770) | — | — | (127,770) |
| End of year | — | 2,700 | — | 2,700 |
| **Company** | | | | |
| Beginning of year | — | — | — | — |
| Effect of the Reorganisation (d) | — | — | 3,270 | 3,270 |
| Premium on issue of shares through placements (Note 17.d) | 148,400 | — | — | 148,400 |
| Premium on issue of shares to the Company's underwriter (Note 17.e) | 2,450 | — | — | 2,450 |
| Share issuance expenses | (23,080) | — | (3,270) | (26,350) |
| Capitalisation of share premium (Note 17.f) | (127,770) | — | — | (127,770) |
| End of year | — | — | — | — |

*Notes:*

a. On 13th April, 2000, iSteelAsia Holdings Limited, a wholly-owned subsidiary of the Company, issued 7,996 shares with a par value of US$1.00 each to Van Shung Chong (B.V.I.) Limited, a substantial shareholder of the Company, as consideration of the capitalisation of the shareholder loan of $2,000,000 owed by the Group to Van Shung Chong (B.V.I.) Limited. The 7,996 shares issued to Van Shung Chong (B.V.I.) Limited were acquired by the Company on the same date through an exchange of shares pursuant to the Reorganisation (see Note 1). In addition, approximately $299,000 of the shareholder loan was capitalised during the year.

b. On 13th April, 2000, iSteelAsia Holdings Limited issued 1,999 shares with a par value of US$1.00 each to Grand Bridge Enterprises Limited, a substantial shareholder of the Company, for cash of approximately $3,900,000. The 1,999 shares issued to Grand Bridge Enterprises Limited were acquired by the Company on the same date through an exchange of shares pursuant to the Reorganisation (see Note 1).

c. The effect of the Reorganisation debited to capital reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of subsidiaries acquired through an exchange of shares pursuant to the Reorganisation (see Note 1).

d. The effect of the Reorganisation credited to contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of a subsidiary acquired through an exchange of shares pursuant to the Reorganisation (see Note 1).

Under the Companies Act 1981 of Bermuda, contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

As at 31st March, 2001, the Company had no reserves available for distribution to shareholders.

**20. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**

a. Analysis of changes in financing is as follows:

| | Share capital and share premium *$'000* | Capital reserve *$'000* | Share issuance expenses *$'000* | Short-term bank borrowings *$'000* | Shareholder loan *$'000* | Total *$'000* |
|---|---|---|---|---|---|---|
| As at 1st April, 1999 | — | — | — | — | 15,068 | 15,068 |
| Issue of shares by a subsidiary | 1 | — | — | — | — | 1 |
| Share issuance expenses | — | — | (2,701) | — | — | (2,701) |
| New short-term bank loan | — | — | — | 25,000 | — | 25,000 |
| Increase in shareholder loan | — | — | — | — | 1,735 | 1,735 |
| As at 31st March, 2000 | 1 | — | (2,701) | 25,000 | 16,803 | 39,103 |
| Issue of shares through placements (Note 17.d) | 165,600 | — | — | — | — | 165,600 |
| Issue of shares and share exchange upon the Reorganisation (Note 17.c) | 230 | — | — | — | — | 230 |
| Capitalisation of shareholder loan (Note 19.a) | — | 2,299 | — | — | (2,299) | — |
| Issue of shares by a subsidiary (Note 19.b) | — | 3,900 | — | — | — | 3,900 |
| Effect of the Reorganisation | (1) | (229) | — | — | — | (230) |
| Share issuance expenses | | | | | | |
| — settled by cash | — | — | (23,340) | — | — | (23,340) |
| — settled through issue of shares (Note 17.e) | 2,700 | — | (2,700) | — | — | — |
| — offset against share premium and capital reserve | (23,080) | (3,270) | 26,350 | — | — | — |
| — written off | — | — | 2,391 | — | — | 2,391 |
| Repayment of short-term bank loan | — | — | — | (25,000) | — | (25,000) |
| New trust receipts bank loans | — | — | — | 33,221 | — | 33,221 |
| Repayment of trust receipts bank loans | — | — | — | (8,732) | — | (8,732) |
| Decrease in shareholder loan | — | — | — | — | (14,504) | (14,504) |
| As at 31st March, 2001 | 145,450 | 2,700 | — | 24,489 | — | 172,639 |

b. Analysis of cash and cash equivalents:

| | **2001** *$'000* | **2000** *$'000* |
|---|---|---|
| Cash and bank deposits | 28,516 | — |
| Short-term bank loan | — | (25,000) |
| | 28,516 | (25,000) |

## 21. PENSION SCHEME

During the period from 1st April, 2000 to 30th November, 2000, the Group arranged for its employees a defined contribution provident fund (the "Original Scheme"), which was managed by an independent trustee. The Group made monthly contributions to the Original Scheme at 5% to 13% of the employees' basic salaries, depending on the grading of the employees; while the employees were required to make monthly contributions at a fixed rate of 0% or 5%, depending on the year of commencement of service. The employees were entitled to receive their entire contribution and the accrued interest thereon; and 100% of the Group's employer contribution and the accrued interest thereon upon retirement or leaving the Group after completing ten years of service, or at a reduced scale of between 30% to 90% after completing three to nine years of service. The forfeited contributions made by the Group and the related accrued interest were used to reduce the Group's employer contribution. The Original Scheme was terminated on 30th November, 2000 and all the amounts previously contributed by the employees and the employer are distributable to the respective employees. For the year ended 31st March, 2001, the aggregate employer's contribution made by the Group to the Original Scheme was approximately $377,000 (2000 - $53,000), after deduction of forfeited contributions of approximately $22,000 (2000 - $15,000).

Since 1st December, 2000, the Group has arranged for its employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Each of the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a contribution cap of $12,000 per employee per annum. During the year ended 31st March, 2001, the aggregate amount of employer contributions made by the Group to the MPF Scheme was approximately $167,000 (2000 - Nil).

## 22. COMMITMENTS AND CONTINGENT LIABILITIES

As at 31st March, 2001, the Group had the following significant commitments and contingent liabilities which were not provided in the financial statements:

### a. Operating lease commitments

Total commitments payable under various non-cancellable operating lease agreements in respect of rented premises are analysed as follows:

| | **Consolidated** | | **Company** | |
|---|---|---|---|---|
| | **2001** | **2000** | **2001** | **2000** |
| | *$'000* | *$'000* | *$'000* | *$'000* |
| Amounts payable within a period of | | | | |
| — within one year | 533 | — | — | — |
| — between one and two years | 98 | — | — | — |
| | 631 | — | — | — |

The commitments payable within the next twelve months are analysed as follows:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| | *$'000* | *$'000* | *$'000* | *$'000* |
| Leases expiring within a period | | | | |
| — not exceeding one year | 51 | — | — | — |
| — within two years to five years | 482 | — | — | — |
| | 533 | — | — | — |

**b. Contingent liabilities**

As at 31st March, 2001, the Company had provided corporate guarantees of approximately $99,423,000 (2000 - Nil) to banks for banking facilities granted to its subsidiaries.

**23. BANKING FACILITIES**

As at 31st March, 2001, the Group had aggregate banking facilities of approximately $99,423,000 (2000 - $25,000,000) from several banks for overdrafts, loans, and trade financing. Unused facilities as at the same date amounted to approximately $54,349,000 (2000 - Nil). These facilities were secured by:

a. the put option to sell shares in Stemcor Holdings Limited (see Note 12); and

b. corporate guarantees provided by the Company (see Note 22.b).

In addition, the Company has agreed with certain banks to comply with certain restrictive financial covenants.

## 2. FIRST QUARTERLY RESULTS

The following are the unaudited consolidated results of the Group for the three months ended 30th June, 2001, together with the comparative unaudited figures for the corresponding period in 2000, extracted from the Company's first quarterly results announcement dated 6th August, 2001:—

| | | For the three months ended 30th June, | |
|---|---|---|---|
| | | **2001** | **2000** |
| | *Note* | *HK$'000* | *HK$'000* |
| Turnover | | | |
| — Sales | | 69,047 | 53,911 |
| — Commission | | 1,745 | 2,187 |
| | *1* | 70,792 | 56,098 |
| Cost of inventories sold | | (67,151) | (52,292) |
| Staff costs | | (5,475) | (8,463) |
| Research and development expenses | | (349) | (9,226) |
| Marketing and branding expenses | | (157) | (8,250) |
| Amortisation of website development costs | | (272) | (429) |
| Write off of website development costs | | — | (4,915) |
| Depreciation of furniture and equipment | | (184) | (67) |
| Other operating expenses | | (3,238) | (6,992) |
| Loss from operations | | (6,034) | (34,536) |
| Interest income | | 841 | 1,520 |
| Interest expense | | (1,306) | (110) |
| Loss before taxation | | (6,499) | (33,126) |
| Taxation | *2* | (37) | (224) |
| Loss attributable to shareholders | | (6,536) | (33,350) |
| Loss per share — Basic | *3* | (0.45) cents | (2.35) cents |

*Notes:*

**1. Turnover**

Turnover comprises (i) the net invoiced value of merchandise sold after allowances for returns and discounts from steel trading operation, and (ii) commission from procurement and online steel trading services.

**2. Taxation**

Taxation consisted of:

| | For the three months ended 30th June, | |
|---|---|---|
| | **2001** | **2000** |
| | *HK$'000* | *HK$'000* |
| Current taxation | | |
| — Hong Kong profits tax | — | 224 |
| — Mainland China enterprise income tax | 37 | — |
| | 37 | 224 |

No provision for Hong Kong profits tax has been provided as the Group had no assessable profit during the three months ended 30th June, 2001 (2000 - Hong Kong profits tax was provided at the rate of 16% on the estimated assessable profit arising in or derived from Hong Kong). A subsidiary operated in the Mainland China is subject to Mainland China enterprise income tax at the rate of 33% (2000 - Nil).

**3. Loss per share**

The calculations of basic loss per share for the three months ended 30th June, 2001 were based on the unaudited consolidated loss attributable to shareholders of approximately HK$6,536,000 (2000 - HK$33,350,000) and on the weighted average number of 1,454,500,000 (2000 - 1,419,983,516) shares in issue during the three months ended 30th June, 2001.

Diluted loss per share for the three months ended 30th June, 2001 and the three months ended 30th June, 2000 are not presented because the exercise of the share options granted by the Company would have an anti-dilutive effect.

**4. Dividends**

The Directors do not recommend the payment of an interim dividend for the three months ended 30th June, 2001.

## 3. INDEBTEDNESS

As at the close of business day of 30th June, 2001, the Group had aggregate outstanding borrowings of approximately HK$54,999,000, comprising bank overdrafts of approximately HK$808,000, trust receipts bank loans of approximately HK$22,558,000, a long-term bank loan of HK$31,200,000 and an amount due to a related company of approximately HK$433,000.

As at 30th June, 2001, all of the Group's borrowings were secured by:

a. a put option to sell to Stemcor Holdings Limited ("Stemcor") the Group's shareholdings in Stemcor for US$3,000,000; and

b. corporate guarantees provided by the Company.

In addition, the Company has agreed with a bank to comply with certain restrictive financial covenants.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance lease or hire purchase commitment, liabilities under acceptances or acceptance credit, or any guarantees or other contingent liabilities outstanding at the close of business day on 30th June, 2001.

## 4. WORKING CAPITAL

The Directors, including independent non-executive Directors, are of the opinion that after taking into account the Group's existing cash and bank balances and the present available banking facilities, and in the absence of unforeseen circumstances, the Group will have sufficient working capital for its present requirements.

## 5. MATERIAL CHANGES

Save as disclosed in this circular, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st March, 2001.

## 1. FINANCIAL STATEMENTS

The following are the audited financial statements of the AAM Group for the three years ended 31st December, 2000, together with accompanying notes, extracted from AAM's annual report for the year ended 31st December, 2000 and from the prospectus of AAM dated 6th July, 2000:—

**Consolidated Income Statement**
*For the year ended 31st December, 2000*

| | Note | 2000 | 1999 | 1998 |
|---|---|---|---|---|
| | | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | *4* | 391,920 | 272,909 | 175,854 |
| Cost of sales and services rendered | | (302,830) | (183,641) | (121,171) |
| Gross profit | | 89,090 | 89,268 | 54,683 |
| Other revenue | *4* | 3,560 | 971 | 118,328 |
| Selling and distribution expenses | | (52,428) | (8,099) | (9,425) |
| General and administrative expenses | | (272,482) | (86,606) | (73,081) |
| Write-off and loss on disposal of investments | *5* | — | (40,370) | (228,785) |
| Loss from operations | | (232,260) | (44,836) | (138,280) |
| Interest income | *4* | 14,023 | 7,953 | 28,992 |
| Interest expense | | (23,850) | (23,140) | (97,326) |
| Loss before share of profit of associates and profit (loss) attributable to discontinued operations | *6* | (242,087) | (60,023) | (206,614) |
| Share of profit of associates | | 120,700 | 114,298 | (105,483) |
| Profit (Loss) attributable to discontinued operations | *8* | 3,197 | (30,778) | (57,732) |
| (Loss) Profit before taxation | | (118,190) | 23,497 | (369,829) |
| Taxation | *9* | (25,740) | (14,237) | 87,639 |
| (Loss) Profit after taxation but before minority interests | | (143,930) | 9,260 | (282,190) |
| Minority interests | | (27,909) | (5,114) | 133,825 |
| (Loss) Profit attributable to shareholders | *10* | (171,839) | 4,146 | (148,365) |
| Accumulated losses, beginning of year | | (306,278) | (310,424) | (162,059) |
| Accumulated losses, end of year | | (478,117) | (306,278) | (310,424) |
| | | *HK Cents* | *HK Cents* | *HK Cents* |
| (Loss) Earnings per share — Basic | *11* | (3.50) | 0.11 | (4.09) |

**Balance Sheets**

*As at 31st December, 2000*

| | | Consolidated | | Company |
|---|---|---|---|---|
| | | **2000** | **1999** | **2000** |
| | *Note* | *HK$'000* | *HK$'000* | *HK$'000* |
| Non-current assets | | | | |
| Property and equipment | *12* | 448,498 | 211,922 | 3,054 |
| Investment in subsidiaries | *13* | — | — | 716,150 |
| Investment in associates | *14* | 625,949 | 644,998 | — |
| Long-term investments | *15* | 22,487 | 18,530 | — |
| Goodwill | *16* | 222,348 | 254,264 | — |
| Intangible assets | *17* | 384 | 1,076 | — |
| Deferred tax assets | *18* | 36,184 | 23,484 | — |
| Non-current prepayments and receivables | *19* | 18,325 | 7,519 | — |
| Due from related companies | *20* | 4,174 | 33,209 | — |
| Total non-current assets | | 1,378,349 | 1,195,002 | 719,204 |
| Current assets | | | | |
| Inventories | *21* | 36,826 | 17,759 | — |
| Trade receivables | *22* | 58,044 | 18,754 | — |
| Prepayments, deposits and other current assets | | 76,726 | 31,195 | 1,526 |
| Short-term investments | *23* | 617 | 1,692 | — |
| Pledged bank deposits | *24* | 44,579 | 3,594 | — |
| Cash and bank deposits | *24* | 189,374 | 34,698 | 124,478 |
| Total current assets | | 406,166 | 107,692 | 126,004 |
| Current liabilities | | | | |
| Long-term bank borrowings, current portion | *25* | (110,954) | (65,400) | — |
| Short-term bank loans | *26* | (40,194) | — | — |
| Finance lease obligations, current portion | *27* | (6,490) | (4,362) | — |
| Trade payables | | (94,665) | (16,957) | — |
| Receipts in advance | *28* | (9,161) | (7,937) | — |
| Accruals and other payables | | (131,872) | (60,248) | (5,818) |
| Estimated liabilities for losses of discontinued operations | *29* | (180,733) | (253,508) | — |
| Taxation payable | | (6,877) | (5,639) | — |
| Due to related companies | *30* | (18,647) | (456) | — |
| Total current liabilities | | (599,593) | (414,507) | (5,818) |
| Net current (liabilities) assets | | (193,427) | (306,815) | 120,186 |
| Total assets less current liabilities | | 1,184,922 | 888,187 | 839,390 |

**Balance Sheets**
*As at 31st December, 2000*

| | | Consolidated | | Company |
|---|---|---|---|---|
| | | **2000** | **1999** | **2000** |
| | *Note* | *HK$'000* | *HK$'000* | *HK$'000* |
| Non-current liabilities | | | | |
| Long-term bank borrowings, non-current portion | *25* | — | (93,740) | — |
| Finance lease obligations, non-current portion | *27* | (3,177) | (4,362) | — |
| Total non-current liabilities | | (3,177) | (98,102) | — |
| Minority interests | | (342,355) | (355,156) | — |
| Net assets | | 839,390 | 434,929 | 839,390 |
| Capital and reserves | | | | |
| Share capital | *31* | 506,462 | 1,292,528 | 506,462 |
| Reserves | *32* | 811,045 | (551,321) | 664,271 |
| Accumulated losses | | (478,117) | (306,278) | (331,343) |
| Total shareholders' equity | | 839,390 | 434,929 | 839,390 |

Approved by the Board of Directors on 8th March, 2001:

**Cheng Wen CHENG**
*Director*

**Lak Chuan NG**
*Director*

**Consolidated Statement of Changes in Shareholders' Equity**

*For the year ended 31st December, 2000*

| | Share premium *HK$'000* | Capital reserve *HK$'000* | Investment revaluation reserve *HK$'000* | Equity transactions of associates *HK$'000* | Cumulative translation adjustments *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|
| Balance as at 1st January, 1999 | — | — | — | (21,263) | (561,082) | (582,345) |
| Issuance of shares | — | 12 | — | — | — | 12 |
| Share in equity transactions of associates | — | — | — | 12,343 | — | 12,343 |
| Revaluation increment of long-term investments | — | — | 6,557 | — | — | 6,557 |
| Translation adjustments | — | — | — | — | 12,112 | 12,112 |
| Balance as at 31st December, 1999 | — | 12 | 6,557 | (8,920) | (548,970) | (551,321) |
| Issuance of shares | 580,186 | — | — | — | — | 580,186 |
| Share issuance expenditures | (59,321) | — | — | — | — | (59,321) |
| Capitalisation of share premium | (487,988) | — | — | — | — | (487,988) |
| Capitalisation of shareholders' loans | — | 148,236 | — | — | — | 148,236 |
| Reserve arising from the Reorganisation *(Note 1)* | — | 1,316,554 | — | — | — | 1,316,554 |
| Share in equity transactions of associates | — | — | — | 9,702 | — | 9,702 |
| Revaluation decrement of long-term investments | — | — | (6,557) | — | — | (6,557) |
| Translation adjustments | — | — | — | — | (138,446) | (138,446) |
| Balance as at 31st December, 2000 | 32,877 | 1,464,802 | — | 782 | (687,416) | 811,045 |

**Consolidated Cash Flow Statement**

*For the year ended 31st December, 2000*

| | Note | 2000 HK$'000 | 1999 HK$'000 |
|---|---|---|---|
| Net cash outflow from operating activities | 34a | (91,668) | (20,932) |
| Returns on investments and servicing of finance | | | |
| Interest received | | 14,023 | 7,953 |
| Interest paid | | (29,861) | (23,140) |
| | | (15,838) | (15,187) |
| Taxation | | | |
| Overseas tax paid | | (235) | (35,612) |
| | | (235) | (35,612) |
| Investing activities | | | |
| Additions of property and equipment | | (308,088) | (177,934) |
| Proceeds from disposal of property and equipment | | 786 | 310 |
| Acquisitions of additional interests in subsidiaries | 34b & c | (12,593) | — |
| Acquisitions of additional interests in associates | | (145,963) | — |
| Proceeds from disposal of associates | | — | 360,203 |
| Increase in long-term investments | | (18,870) | (5,945) |
| Increase in non-current prepayments and receivables | | (10,806) | (1,792) |
| Decrease (Increase) in due from related companies | | 29,035 | (20,708) |
| Increase in short-term investments | | — | (1,320) |
| (Increase) Decrease in pledged bank deposits | | (40,985) | 10,192 |
| | | (507,484) | 163,006 |
| Net cash (outflow) inflow before financing activities | | (615,225) | 91,275 |
| Financing | 34d & e | | |
| Proceeds from issuance of shares | | 598,186 | — |
| Share issuance expenditures | | (59,321) | — |
| Financing from shareholders' loans | | 148,236 | — |
| Repayment of long-term bank borrowings | | (48,186) | (28,060) |
| New short-term bank loans | | 40,194 | — |
| Repayment of short-term bank loans | | — | (149,760) |
| Settlement of liabilities for discontinued operations | | (69,578) | (5,946) |
| Repayment of capital element of finance lease obligations | | (6,839) | (5,389) |
| Proceeds from issuance of shares of subsidiaries | | 55,123 | — |
| Loans from minority interests of subsidiaries | | 3,251 | 68,105 |
| Loans from associates | | 26,016 | — |
| | | 687,082 | (121,050) |
| Increase (Decrease) in cash and bank deposits | | 71,857 | (29,775) |
| Cash and bank deposits, beginning of year | | 34,698 | 18,162 |
| Effect of foreign exchange rate changes | | 82,819 | 46,311 |
| Cash and bank deposits, end of year | | 189,374 | 34,698 |

## Notes to the Financial Statements

### 1. GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 6th March, 2000 as an exempted company with limited liability under the Companies Law (1998 Revision) of the Cayman Islands. By shareholders' resolutions dated 31st March, 2000, 12th April, 2000, 26th May, 2000 and 10th June, 2000, the Company changed its name and ultimately to the present name. The Company's shares have been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM") since 13th July, 2000.

On 22nd May, 2000, the Company became the holding company of the other companies comprising the Group pursuant to a group reorganisation (the "Reorganisation"). The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the year ended 31st December, 2000, rather than from the date on which the Reorganisation was completed. The 1999 comparative figures are presented on the same basis.

No balance sheet of the Company as at 31st December, 1999 is presented as it was incorporated subsequent to that date.

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of fixed line broadband communication services, cellular communication services, Internet enabling services and e-Commerce.

### 2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Accounting Standards issued by the International Accounting Standards Committee, and are supplemented by the disclosure requirements of the Hong Kong Companies Ordinance and the Rules governing the Listing of Securities on the GEM (the "GEM Listing Rules"). Principal accounting policies are summarised below:

#### a. Basis of measurement

The financial statements have been prepared on the historical cost basis as modified by stating investments at market rate as explained in Note 2k.

#### b. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries and also incorporate the Group's share of equity interest in associates. The results of subsidiaries and associates acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

#### c. Subsidiaries

A subsidiary is a company in which the Company controls. This control is normally evidenced when the Company owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. In the Company's financial statements, investment in subsidiaries is stated at cost less provision for impairment in value, while income from subsidiaries is recorded to the extent of dividends received and receivable.

**d. Associates**

An associate is a company, not being a subsidiary, in which the Group holds 20% or more of its issued voting share capital as a long-term investment and can exercise significant influence over its management. In the consolidated financial statements, investment in associates is stated at the Group's share of the fair value of the separable net assets of the associates at the time of acquisition, plus/less the Group's share of undistributed post-acquisition profits/ losses and reserves of the associates, distributions received from the associates and other necessary alterations in the Group's proportionate interest in the associates arising from changes in the equity of the associates that have not been included in the income statement.

**e. Goodwill**

Goodwill arising on acquisition of interests in subsidiaries and associates, represents the excess of the cost of acquisition over the Group's share of the fair value of the separable net assets of the subsidiaries and associates acquired less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight-line basis over the estimated economic useful lives ranging from 3 to 20 years. The Company's Directors review and evaluate, taking into consideration current results and future prospects of the related subsidiaries or associates, the carrying value of goodwill periodically.

**f. Turnover and revenue recognition**

Turnover comprises (i) services fees from distribution and maintenance of hardware equipment and software packages, and service fees for technology solutions rendered, (ii) subscriptions for cable television programs, (iii) subscriptions for fast speed Internet access, (iv) converter and fixed line broadband rental, installation and cable television membership joining fees, (v) calling card and service connection fees, (vi) shares administration fees, (vii) subscriptions for multimedia marketing and advertising fees, (viii) insertion fees for multimedia marketing and advertising, (ix) the net sale of merchandise and (x) subscriptions for multimedia channels and content.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Fees for distribution and maintenance of hardware equipment and software packages, and for rendering of technology solutions are recognised when the underlying services are rendered. Fees for subscriptions for cable television programs are recognised on the time apportionment basis for subscription packages or upon rendering of programs for pay-per-view programs. Fees for subscriptions for fast speed Internet access are recognised upon rendering of the access to the Internet. Converter and fixed line broadband rental income is recognised on a time apportionment basis; income from installation fees is recognised when the installation services have been completed, whereas cable television membership joining fees are recognised upon commencement of program delivery. Calling card connection fees are recognised based on actual call usage and forfeiture of stored value upon expiry of calling cards. Revenue from service connection fees is recognised at the time the connection takes place. Revenue from shares administration services is recognised when the underlying services are rendered. Insertion fees and fees for subscriptions for multimedia marketing and advertising are recognised when the advertisement is placed in the channel. Sales revenue is recognised when the merchandise is delivered and title has passed. Fees for subscriptions for multimedia channels and content are recognised when the underlying services are rendered. Interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

**g. Taxation**

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred tax assets are recorded to the extent it is probable that taxable profits will be available against which the deferred tax assets can be utilised.

**h. Employee retirement benefits**

The costs of employee retirement and insurance schemes are expensed in the period in which they are incurred.

**i. Advertising and promotion costs**

The costs of advertising and promotion are expensed in the period in which they are incurred.

**j. Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred.

**k. Investments**

*Long-term investments*

Long-term investments are stated at fair value. An increase in carrying amount arising from the revaluation of long-term investments is credited to owners' equity as an investment revaluation reserve. To the extent that a decrease in carrying amount offsets a previous increase, for the same investment, that has been credited to investment revaluation reserve and not subsequently reversed or utilised, it is charged against that revaluation reserve. In all other cases, a decrease in carrying amount is recognised as an expense. An increase in revaluation directly related to a previous decrease in carrying amount for the same investment that was recognised as an expense, is credited to income to the extent that it offsets the previously recorded decrease.

*Short-term investments*

Short-term investments are stated at fair value and any change in fair value is recorded in the income statement of the period in which the change occurs.

**l. Intangible assets**

Intangible assets represent acquisition costs to obtain exclusive rights to market and distribute a particular brand of software and hardware products. Intangible assets are stated at cost and amortised on a straight-line basis over a period of three years. The Company's Directors review and evaluate, taking into consideration current results and future prospects, the carrying value of intangible assets periodically.

**m. Property and equipment and depreciation**

Property and equipment are stated at cost less accumulated depreciation. Major expenditures on modifications and betterments of property and equipment which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs of property and equipment are expensed when incurred. The carrying value of property and equipment is assessed annually and when factors indicating an impairment are present. The Group determines such impairment by measuring discounted future cash flows. If an impairment is present, the assets are reported at the lower of carrying value or fair value. Depreciation is provided on a straight-line basis over the assets' estimated useful lives. The annual rates of depreciation are as follows:

| | |
|---|---|
| Land use right | 1% |
| Buildings | 5% |
| Building renovations and leasehold improvements | 10 to 50% |
| Office furniture, fixtures and equipment | 12 to 50% |
| Cable television distribution network | 7% |
| Construction-in-progress | * |
| Equipment for rent | 33% |
| Vehicles and helicopters | 20 to 25% |

* Refer to Notes 2n and 2q for depreciation policy.

Gains and losses on disposal of property and equipment are recognised in the income statement based on the net disposal proceeds less the then carrying amount of the assets.

Property and equipment held under finance leases are recorded and depreciated on the same basis as described above.

**n. Construction-in-progress**

Construction-in-progress consists mainly of cable television distribution network and cellular communication network. Expenditures relating to the construction, including interest and other ancillary financing costs incurred on loans obtained to finance the construction, if any, are capitalised as part of construction-in-progress. Capitalisation of interest and other ancillary financing costs ceases at the end of the prematurity period. The accumulated costs are reclassified to the appropriate property and equipment accounts upon completion or at the end of pre-maturity period.

No depreciation is provided for cellular communication network under construction. Refer to Section 2q for depreciation policy for construction-in-progress of cable television distribution network.

**o. Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the moving average method of costing except for certain inventories which cost is calculated using the specific identification method of costing. Cost includes cost of purchases and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices in the ordinary course of business less further costs expected to be incurred for disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction of expense in the period in which the reversal occurs.

**p. Leases**

Finance leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets are transferred to the Group. Fixed assets held under finance leases are initially recorded at the present value of the minimum payments at the inception of the leases, with the equivalent liabilities recorded as appropriate under current or non-current liabilities. Interest expense, which represents the difference between the minimum payments determined over the lease terms at the inception of the finance leases and the corresponding fair value of the assets acquired, is allocated to accounting periods over the period of the relevant leases to produce a constant rate of charge on the outstanding balances.

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

**q. Capitalisation, revenue and expense recognition during prematurity period**

Prematurity period is defined as the period in which the cable television distribution network is partially under construction and partially in service. Prematurity period begins when the first subscriber's revenue is earned and ends when the construction of the distribution network is completed, including a reasonable time to provide for installation of subscriber drops and related hardware. Management has determined the length of the prematurity period to be five years.

During the prematurity period:

- Cost of the network, including materials, direct labour and construction overhead, is fully capitalised. For projects already earning revenues, depreciation is computed monthly by dividing the project's total estimated cost to be capitalised at the end of the prematurity period by the estimated useful lives, with the quotient being multiplied by certain percentage related to the number of subscribers. That certain percentage is calculated by dividing actual or expected number of subscribers at the end of month with the expected number of subscribers at the end of the prematurity period.

- Cost relating to subscribers and general and administrative expenses are charged to the income statement.

- Cost of network services that is incurred based on actual number of subscribers is charged to the income statement.

**r. Provisions**

A provision is recognised when, and only when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

**s. Foreign currency translation**

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date, non-monetary assets and liabilities denominated in other currencies are translated at historical rates. Exchange gains or losses are dealt with in the income statement of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. On consolidation, all of the assets and liabilities of the companies of the Group with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; all of the income and expense items of the companies of the Group with functional currencies other than Hong Kong dollars are translated at the applicable average exchange rates during the year. Exchange differences arising from such translation are dealt with as movements of cumulative translation adjustments.

The rate of exchange in effect on 31st December, 2000 was HK$1 to Rp1,230, and the average exchange rate during the year ended 31st December, 2000 was HK$1 to Rp1,095.

**t. Use of estimates**

The preparation of financial statements in conformity with International Accounting Standards requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## 3. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Particulars of significant transactions between the Group and related companies are summarised below:

| | **2000** *HK$'000* | **1999** *HK$'000* |
|---|---|---|
| Services fees from distribution and maintenance of hardware equipment and software packages and services fees for technology solutions rendered to | | |
| — PT Bank Lippo Tbk | 14,953 | 25,866 |
| — PT Ciptadana Sekuritas | 2,139 | — |
| — PT AIG Lippo | 1,119 | — |
| — PT Lippo Cikarang Tbk | 787 | — |
| — PT Matahari Putra Prima Tbk | 286 | 610 |
| — PT AON Lippo Indonesia | 106 | — |
| — PT Lippo Land Development Tbk | 82 | — |
| — PT Lippo E-Net Tbk | 55 | — |
| — Yayasan Universitas Pelita Harapan | 52 | — |
| — PT Pacific Utama Tbk | 38 | — |
| — PT Lippo Karawaci Tbk | 19 | — |
| — PT Asuransi Jiwa Lippo Utama | — | 579 |
| Receipt of interest income on time deposits placed with PT Bank Lippo Tbk | 8,408 | 6,010 |
| Receipt of shares administration fees for services rendered to | | |
| — PT Matahari Putra Prima Tbk | 2,919 | — |
| — PT Lippo E-Net Tbk | 2,380 | 221 |
| — PT Bank Lippo Tbk | 1,567 | — |
| — PT Lippo Securities Tbk | 750 | — |
| — PT Bukit Sentul Tbk | 361 | — |
| — PT Lippo Karawaci Tbk | 154 | — |
| — PT Lippo Cikarang Tbk | 130 | — |
| — PT Lippo Land Development Tbk | 130 | — |
| — PT Lippo General Insurance Tbk | 37 | — |
| — PT Siloam Health Care Tbk | 85 | — |
| — PT Lippo Enterprises Tbk | 11 | — |
| — PT Pacific Utama Tbk | 8 | — |
| Payment of insurance premium to PT Lippo General Insurance Tbk | 582 | 974 |
| Payment of interest expense on loans obtained from PT Bank Lippo Tbk | 24,182 | 891 |
| Payment of rental charges by PT Matahari Putra Prima Tbk for office space | 681 | — |
| Payment of interest expense on temporary advances obtained from PT Multifiling Mitra Indonesia, PT Matahari Putra Prima Tbk and PT Ciptadana Sekuritas | 677 | 24 |
| Payment of interest expense on loans obtained from Maxipo International Ltd. | 483 | — |
| Payment of advisory fee to PT Lippo Securities Tbk | 3,206 | — |
| Receipt of interest income on temporary advances placed with PT Multifiling Mitra Indonesia | 53 | — |
| Payment of rental charges by PT Datakom for office space | — | 107 |
| Receipt of shares administration fees for non-regular services rendered to PT Bank Lippo Tbk | — | 5,621 |
| Payment of professional fees for services rendered to PT Centronics | — | 137 |

The above companies are directly or indirectly owned, controlled or influenced by the principal shareholders of the Company, through share ownership, management agreements or others.

The Group's long-term bank borrowings of approximately HK$110,954,000 (1999 - HK$159,140,000) and short-term bank loans of approximately HK$29,726,000 (1999 - Nil) were borrowed from PT Bank Lippo Tbk, a related company.

During the year ended 31st December, 2000, shareholders' loans of approximately HK$148,236,000 were capitalised.

The Directors of the Company are of the opinion that the above transactions with related parties were conducted under normal commercial terms in the ordinary course of business. The price of the above transactions was determined on their fair value.

**4. TURNOVER AND REVENUE**

Analysis of turnover and revenue by product category is as follows:

| | **2000** | **1999** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Fixed line broadband communication services | | |
| — Insertion fees | 4,915 | — |
| — Subscriptions for cable television programs | 41,310 | 19,970 |
| — Converter and fixed line broadband rental, installation and cable television membership joining fees | 7,750 | 6,346 |
| | 53,975 | 26,316 |
| Cellular communication services | | |
| — Calling card and service connection fees | 7,141 | 6,658 |
| Internet enabling services | | |
| — Services fees from distribution and maintenance of hardware equipment and software packages, and services fees for technology solutions rendered | 257,447 | 189,866 |
| — Subscriptions for fast speed Internet access | 2,236 | 50 |
| — Subscriptions for multimedia marketing and advertising fees | 14,329 | — |
| — Subscriptions for multimedia channels and content | 12,282 | — |
| | 286,294 | 189,916 |
| E-Commerce | | |
| — Sale of merchandise | 11,811 | — |
| Other | | |
| — Shares administration fees *(a)* | 32,699 | 50,019 |
| Total turnover | 391,920 | 272,909 |
| Interest income | 14,023 | 7,953 |
| Other revenue | 3,560 | 971 |
| Total revenue | 409,503 | 281,833 |

*Note:*

a. The financial information of the shares administration services business segment is classified under Internet enabling services business segment in Note 41(a) as they are under the same management.

## 5. WRITE-OFF AND LOSS ON DISPOSAL OF INVESTMENTS

Analysis of write-off and loss on disposal of investments is as follows:

| | **2000** | **1999** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Write-off of investments *(a)* | — | (14,725) |
| Net loss on disposal of investments *(b)* | — | (25,645) |
| | — | (40,370) |

*Notes:*

a. This represented write-off of the Group's investments in PT Surabaya Land, PT Ningz Pacific, PT Jakarta Polo & Equestrian Club and PT Primasarana Mulia.

b. This represented net loss on disposal of investments in PT Matahari Putra Prima Tbk, PT Multipolar Pratama, PT Cipta Anekatronika, PT Mitra Infosarana and PT Dua Satu Tiga Puluh.

## 6. LOSS BEFORE SHARE OF PROFIT OF ASSOCIATES AND PROFIT (LOSS) ATTRIBUTABLE TO DISCONTINUED OPERATIONS

Loss before share of profit of associates and profit (loss) attributable to discontinued operations is determined after charging and crediting the following items:

| | **2000** | **1999** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| After charging: | | |
| Staff costs (including Directors' emoluments) | 105,520 | 15,001 |
| Operating lease rentals of premises | 12,884 | 5,628 |
| Interest expense on | | |
| — bank loans wholly repayable within one year | | |
| • related companies | 24,182 | 891 |
| • third parties | 3,319 | — |
| — promissory notes | — | 21,161 |
| — finance lease obligations | 1,200 | 1,064 |
| — due to related companies | 1,160 | 24 |
| | 29,861 | 23,140 |
| Less: Interest expense capitalised as construction-in-progress* | (6,011) | — |
| | 23,850 | 23,140 |
| Net exchange loss | 25,652 | 1,369 |
| Depreciation of property and equipment | | |
| — owned assets | 37,278 | 11,186 |
| — leased assets | 2,292 | 1,633 |
| | 39,570 | 12,819 |

* For the year ended 31st December, 2000, the rates of capitalisation of the borrowing costs were averaged to be approximately 22% per annum (1999 - Nil).

| | 2000<br>*HK$'000* | 1999<br>*HK$'000* |
|---|---|---|
| After charging: *(continued)* | | |
| Net loss on disposal of property and equipment | — | 27 |
| Bad debt expenses/Provision for doubtful debts | 3,874 | 2,179 |
| Provision for obsolete and slow-moving inventories | 1,524 | 394 |
| Website development costs | 7,956 | — |
| Provision for impairment in value of long-term investments | 8,356 | — |
| Loss on revaluation of short-term investments | 1,075 | — |
| Advertising and promotion costs | 52,428 | 8,094 |
| Amortisation of goodwill | 25,824 | 20,607 |
| Amortisation of intangible assets | 470 | 254 |
| Auditors' remuneration | 1,950 | 1,000 |
| After crediting: | | |
| Interest income from bank deposits | | |
| — third parties | 5,562 | 1,943 |
| — related companies *(Note 3)* | 8,461 | 6,010 |
| Net gain on disposal of property and equipment | 332 | — |

## 7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

**a. Details of Directors' emoluments are as follows:**

| | **2000** | **1999** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Fees for executive Directors | 75 | — |
| Fees for non-executive Directors | 175 | — |
| Other emoluments for executive Directors | | |
| — Basic salaries and allowances | 8,780 | — |
| — Inducement to join the Group | 1,000 | — |
| Other emoluments for non-executive Directors | — | — |
| | 10,030 | — |

No Director waived any emoluments during the year.

Analysis of Directors' emoluments by emolument range is as follows:

| | **2000** | **1999** |
|---|---|---|
| HK$1,000,001 to HK$1,500,000 | 1 | — |
| HK$1,500,001 to HK$2,000,000 | 1 | — |
| HK$2,500,001 to HK$3,000,000 | 1 | — |
| HK$3,500,001 to HK$4,000,000 | 1 | — |
| | 4 | — |

**b. Details of emoluments paid to the five highest paid individuals (including Directors and other employees) are as follows:**

| | **2000** | **1999** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Basic salaries and allowances | 10,530 | 3,810 |
| Inducement to join the Group | 1,000 | — |
| | 11,530 | 3,810 |

Four (1999 - Nil) of the highest paid individuals were Directors of the Company, whose emoluments are included in Note 7a above.

Except for a Director who was given HK$1,000,000 as inducement to join the Group, no emoluments of the four highest paid individuals (including Directors and other employees) were incurred as inducement to join or upon joining the Group or as compensation for loss of office.

Analysis of the five highest paid individuals by emolument range is as follows:

| | **2000** | **1999** |
|---|---|---|
| HK$500,001 to HK$1,000,000 | — | 4 |
| HK$1,000,001 to HK$1,500,000 | 1 | 1 |
| HK$1,500,001 to HK$2,000,000 | 2 | — |
| HK$2,500,001 to HK$3,000,000 | 1 | — |
| HK$3,500,001 to HK$4,000,000 | 1 | — |
| | 5 | 5 |

## 8. PROFIT (LOSS) ATTRIBUTABLE TO DISCONTINUED OPERATIONS

Profit (loss) attributable to discontinued operations represented:

| | **2000** *HK$'000* | **1999** *HK$'000* |
|---|---|---|
| Net operating results of discontinued operations *(a)* | — | (30,778) |
| Gain relating to disposal of PT Multipolar Pratama *(see Note 29)* | 3,197 | — |
| | 3,197 | (30,778) |

*Note:*

a. For the year ended 31st December, 1999, loss attributable to discontinued operations represents the net operating results of PT Multipolar Pratama and its subsidiaries, PT Cipta Anekatronika and PT Gema Anekatronika, which were previously accounted for using consolidation accounting. The investments in these subsidiaries were disposed of during the year ended 31st December, 1999 and, consequently, the financial statements for such subsidiaries no longer qualified for consolidation.

## 9. TAXATION

Taxation (consolidated) consisted of:

| | 2000 | 1999 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| (Provision for) current taxation | | |
| — The Company and its subsidiaries | (1,427) | (2,906) |
| — Associates | (8,469) | (5,784) |
| | (9,896) | (8,690) |
| (Provision for) Write-back of deferred taxation | | |
| — The Company and its subsidiaries | 21,608 | (904) |
| — Associates | (37,452) | (4,643) |
| | (15,844) | (5,547) |
| | (25,740) | (14,237) |

During the years ended 31st December, 1999 and 2000, substantially all the Group's profit was derived from subsidiaries and associates incorporated and operating in Indonesia. These subsidiaries and associates were subject to Indonesian income tax at a maximum of 30% of the individual entity's respective assessable profits in accordance with the Indonesian income tax law. No provision for Hong Kong profits tax was made as the Group had no assessable profits arising in or derived from Hong Kong.

A reconciliation of the weighted statutory tax rate to the effective tax rate is as follows:

| | 2000 | 1999 |
|---|---|---|
| Weighted statutory tax rate | (13%) | 30% |
| Allowance on deferred tax assets | 32% | 23% |
| Non-deductible items | 3% | 68% |
| Non-taxable items | (2%) | (10%) |
| Difference between statutory tax rate and effective tax rate of associates | 2% | (37%) |
| Deductible share issuance cost, charged against reserve by subsidiaries | — | (13%) |
| Effective tax rate | 22% | 61% |

## 10. (LOSS) PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders included a loss of approximately HK$331,343,000 dealt with in the financial statements of the Company.

## 11. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share for the year ended 31st December, 2000 is based on the loss attributable to shareholders of approximately HK$171,839,000 (1999 - profit of approximately HK$4,146,000) and on the weighted average of approximately 4,904,536,000 shares (1999 - 3,629,599,000 shares) deemed to be in issue throughout the year, on the assumption that the Reorganisation (see Note 1) had been completed on 1st January, 1999.

Diluted loss per share for the year ended 31st December, 2000 is not presented because the effect is anti-dilutive. Diluted earnings per share for the year ended 31st December, 1999 is not presented because there were no dilutive shares in existence.

## 12. PROPERTY AND EQUIPMENT

Movements of property and equipment (consolidated) are as follows:

| | 2000 | | | | | | | | 1999 |
|---|---|---|---|---|---|---|---|---|---|
| | Land use right and buildings | Building renovations and leasehold improvements | Office furniture, fixtures and equipment | Cable television distribution network | Construction-in-progress | Equipment for rent | Vehicles and helicopters | Total | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Cost** | | | | | | | | | |
| Beginning of year | 3,240 | 1,120 | 30,219 | 2,246 | 189,219 | 11,564 | 10,583 | 248,191 | 52,221 |
| Additions | 17,979 | 9,180 | 83,597 | 6,964 | 181,148 | 12,680 | 8,711 | 320,259 | 186,807 |
| Additions through acquisition | — | 547 | 5,193 | — | — | — | — | 5,740 | — |
| Disposal | — | — | (1,869) | — | — | (187) | (125) | (2,181) | (9,320) |
| Translation adjustments | (824) | (285) | (10,614) | 34 | (48,111) | (10) | (2,734) | (62,544) | 18,483 |
| End of year | 20,395 | 10,562 | 106,526 | 9,244 | 322,256 | 24,047 | 16,435 | 509,465 | 248,191 |
| **Accumulated depreciation** | | | | | | | | | |
| Beginning of year | (472) | (439) | (12,823) | (125) | (5,333) | (11,289) | (5,788) | (36,269) | (30,617) |
| Provision for the year | (257) | (1,517) | (14,345) | (767) | (15,881) | (3,814) | (2,989) | (39,570) | (12,819) |
| Disposal | — | — | 1,631 | — | — | 66 | 30 | 1,727 | 8,983 |
| Translation adjustments | 148 | 266 | 5,100 | 23 | 3,101 | 2,694 | 1,813 | 13,145 | (1,816) |
| End of year | (581) | (1,690) | (20,437) | (869) | (18,113) | (12,343) | (6,934) | (60,967) | (36,269) |
| **Net book value** | | | | | | | | | |
| End of year | 19,814 | 8,872 | 86,089 | 8,375 | 304,143 | 11,704 | 9,501 | 448,498 | 211,922 |
| Beginning of year | 2,768 | 681 | 17,396 | 2,121 | 183,886 | 275 | 4,795 | 211,922 | 21,604 |

Certain property and equipment (consolidated) included in above were held under finance leases. Details of these assets are as follows:

| | 2000 | | | | 1999 |
|---|---|---|---|---|---|
| | **Building renovations and leasehold improvements** *HK$'000* | **Office furniture, fixtures and equipment** *HK$'000* | **Vehicles and helicopters** *HK$'000* | **Total** *HK$'000* | **Total** *HK$'000* |
| Cost | 399 | 1,784 | 12,502 | 14,685 | 8,873 |
| Less: Accumulated depreciation | (33) | (509) | (7,031) | (7,573) | (5,281) |
| Net book value | 366 | 1,275 | 5,471 | 7,112 | 3,592 |
| Depreciation for the year | 33 | 509 | 1,750 | 2,292 | 1,633 |

## 13. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries consisted of:

| | **2000** *HK$'000* |
|---|---|
| Listed shares, at cost | 557,690 |
| Unlisted shares, at cost | 9,870 |
| | 567,560 |
| Due from subsidiaries | 441,625 |
| | 1,009,185 |
| Less: Provision for impairment in value | (293,035) |
| | 716,150 |
| Quoted market value of listed shares | 1,077,223 |

The amounts due from subsidiaries were unsecured and non-interest bearing. The Company has agreed not to demand repayment from the subsidiaries before 1st January, 2002.

The underlying value of the investment in subsidiaries is, in the opinion of the Company's Directors, not less than the carrying value as at 31st December, 2000.

Details of the principal subsidiaries as at 31st December, 2000 are as follows:

| Name | Place of incorporation/ operations | Issued and fully paid share capital | Percentage of equity interest attributable to the Group[a] | Principal activities |
|---|---|---|---|---|
| PT Multipolar Corporation Tbk[a&b] | Indonesia | Rp935,884,000,000 | 50.1% | Investment holding, system integration and application service provider |
| *Subsidiaries* | | | | |
| PT Sharestar Indonesia | Indonesia | Rp500,000,000 | 50.1% | Shares registrar services |
| PT Reksa Puspita Karya | Indonesia | Rp25,000,000 | 50.1% | Investment holding |
| PT Tryane Saptajagat | Indonesia | Rp50,000,000 | 50 1% | Investment holding |
| PT Computrade Indonesia | Indonesia | Rp2,500,000,000 | 50.1% | Trading and distributor |
| PT Broadband Multimedia Tbk[a&b] | Indonesia | Rp187,150,000,000 | 66%[c] | Operation of last-mile broadband HFC network and cable TV |
| PT AsiaNet Multimedia[a] | Indonesia | US$1,333,333 | 97.5%[d] | Investment holding |
| *Subsidiaries* | | | | |
| PT Natrindo Global Telekomunikasi | Indonesia | Rp25,000,000,000 | 85.6% | Operation of wireless VSAT network |
| PT Natrindo Kartu Panggil | Indonesia | Rp5,000,000 | 85.2% | Provision of prepaid telephone calling cards |
| PT Natrindo Telepon Seluler | Indonesia | Rp12,500,000,000 | 85.6% | Operation of GSM1800 cellular network |
| PT Lippo On Line | Indonesia | Rp12,500,000,000 | 97% | Operation of broad horizontal portal |
| PT Link Net | Indonesia | Rp12,500,000,000 | 97% | Internet service provider |
| PT Lippo Shop | Indonesia | Rp50,000,000,000 | 89.5% | Operation of e-Commerce |

| Name | Place of incorporation/ operations | Issued and fully paid share capital | Percentage of equity interest attributable to the Group[a] | Principal activities |
|---|---|---|---|---|
| Cyberworks Group Limited[a] | British Virgin Islands | US$1,000 | 100% | Investment holding |
| *Subsidiaries* | | | | |
| Connet Inc. | British Virgin Islands | US$1 | 100% | Investment holding |
| Nastek Inc. | British Virgin Islands | US$1 | 100% | Investment holding |
| AsiaPay Limited | British Virgin Islands | US$1 | 100% | Investment holding |
| AsiaPay (HK) Limited | Hong Kong | HK$2 | 100% | E-payment service and solutions provider |
| Asia MobileNet (HK) Limited | Hong Kong | HK$2 | 82.5% | Wireless application service provider |
| e-Planet Corporation | British Virgin Islands | US$100 | 100% | Investment holding |
| *Subsidiaries* | | | | |
| e-Planet Telemedia Limited | British Virgin Islands | US$295 | 79.7% | Investment holding |
| MediaManager Pte. Ltd. | Singapore | S$4,982,200 | 59.4% | Multimedia production |
| Communication Resources Pte. Ltd. | Singapore | S$847,074 | 51.3% | Books and magazine publications |
| Digital Access Sdn. Bhd. | Malaysia | Rm100,000 | 40.6%[e] | Books and magazine publications |

*Notes:*

a. The shares of PT Multipolar Corporation Tbk, PT Broadband Multimedia Tbk, PT AsiaNet Multimedia and Cyberworks Group Limited were held directly by the Company. The shares of other subsidiaries were held indirectly.

b. PT Multipolar Corporation Tbk is listed on the Jakarta Stock Exchange and the Surabaya Stock Exchange in Indonesia. PT Broadband Multimedia Tbk is listed on the Surabaya Stock Exchange in Indonesia. All other subsidiaries were private limited companies.

c. The Company directly owns a 57.6% equity interest in PT Broadband Multimedia Tbk and PT Multipolar Corporation Tbk (a 50.1 % owned subsidiary) owns a 16.7% equity interest in PT Broadband Multimedia Tbk.

d. The Company directly owns a 95% equity interest in PT AsiaNet Multimedia and PT Multipolar Corporation Tbk (a 50.1% owned subsidiary) owns a 5% equity interest in PT AsiaNet Multimedia.

e. e-Planet Telemedia Limited, a 79.7% owned subsidiary, owns a 51% equity interest in Digital Access Sdn. Bhd. Accordingly, Digital Access Sdn. Bhd. is considered a subsidiary.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st December, 2000.

## 14. INVESTMENT IN ASSOCIATES

Investment in associates (consolidated) consisted of:

| | 2000 | | | 1999 | | |
|---|---|---|---|---|---|---|
| | **Listed shares** | **Unlisted shares** | **Total** | **Listed shares** | **Unlisted shares** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Investments, at cost | 824,452 | 72,554 | 897,006 | 1,002,353 | 546 | 1,002,899 |
| Less: Excess of acquisition cost over the Group's share of fair value of separable net assets at the dates of acquisition | (343,314) | (14,975) | (358,289) | (426,948) | — | (426,948) |
| Add: Share of undistributed post-acquisition profit (loss) | 123,700 | (10,452) | 113,248 | 66,149 | 2,898 | 69,047 |
| | 604,838 | 47,127 | 651,965 | 641,554 | 3,444 | 644,998 |
| Loans (from) to associates | (26,090) | 74 | (26,016) | — | — | — |
| | 578,748 | 47,201 | 625,949 | 641,554 | 3,444 | 644,998 |
| Quoted market value of listed shares | 472,861 | N/A | | 1,350,661 | N/A | |

The loans (from) to associates were unsecured and non-interest bearing, except for a loan from an associate amounting to HK$2,439,000 which bore interest at a rate of 18% per annum. The associates have agreed not to demand repayment from the Company before 1st January, 2002.

The underlying value of the investment in associates is, in the opinion of the Company's Directors, not less than the carrying value as at 31st December, 2000.

Details of the principal associates as at 31st December, 2000 are as follows:

| Name | Place of incorporation/ operations | Issued and fully paid share capital | Percentage of equity interest attributable to the Group[a] | Principal activities |
|---|---|---|---|---|
| PT Matahari Putra Prima Tbk[b] | Indonesia | Rp1,352,997,000,000 | 21.6%[c] | Operation of department store and supermarket chain |
| PT Multifiling Mitra Indonesia | Indonesia | Rp1,000,000,000 | 25% | Record filing services |
| Systech On-Line Limited | Hong Kong | HK$20,000 | 30% | IT consulting, system architecture, design and application development |
| Digital Content Development Corporation Limited | Hong Kong | HK$2,000,000 | 20% | Production of 3D digital animation |
| Cyber Pacific Group Limited | British Virgin Islands | US$10,000 | 45% | Investment holding |
| KeyTrend Technology Holdings Limited | British Virgin Islands | US$14,700,000 | 40.8% | Investment holding |

*Notes:*

a. The shares of all associates were held indirectly.

b. PT Matahari Putra Prima Tbk is listed on the Jakarta Stock Exchange and the Surabaya Stock Exchange in Indonesia. All other associates are private limited companies.

c. PT Multipolar Corporation Tbk, a 50.1% owned subsidiary, owned a 43% equity interest in PT Matahari Putra Prima Tbk. Accordingly, PT Matahari Putra Prima Tbk is considered an associate.

## 15. LONG-TERM INVESTMENTS

Long-term investments (consolidated) consisted of:

| | **2000** *HK$'000* | **1999** *HK$'000* |
|---|---|---|
| Listed shares | 3,617 | 18,530 |
| Unlisted shares | 18,870 | — |
| | 22,487 | 18,530 |
| Quoted market value of listed shares | 3,617 | 18,530 |

## 16. GOODWILL

Movements of goodwill (consolidated) are as follows:

| | 2000 | | | 1999 | | |
|---|---|---|---|---|---|---|
| | **Subsidiaries** *HK$'000* | **Associates** *HK$'000* | **Total** *HK$'000* | **Subsidiaries** *HK$'000* | **Associates** *HK$'000* | **Total** *HK$'000* |
| **Cost** | | | | | | |
| Beginning of year | 25,474 | 426,948 | 452,422 | 25,474 | 543,154 | 568,628 |
| Additions | 16,714 | 39,899 | 56,613 | — | — | — |
| Disposal | — | — | — | — | (116,206) | (116,206) |
| Translation adjustments | (6,478) | (108,558) | (115,036) | — | — | — |
| End of year | 35,710 | 358,289 | 393,999 | 25,474 | 426,948 | 452,422 |
| **Accumulated amortisation** | | | | | | |
| Beginning of year | (714) | (197,444) | (198,158) | — | (175,696) | (175,696) |
| Amortisation | (9,149) | (16,675) | (25,824) | (655) | (19,952) | (20,607) |
| Translation adjustments | 736 | 51,595 | 52,331 | (59) | (1,796) | (1,855) |
| End of year | (9,127) | (162,524) | (171,651) | (714) | (197,444) | (198,158) |
| **Net book value** | | | | | | |
| End of year | 26,583 | 195,765 | 222,348 | 24,760 | 229,504 | 254,264 |
| Beginning of year | 24,760 | 229,504 | 254,264 | 25,474 | 367,458 | 392,932 |

### 17. INTANGIBLE ASSETS

Movements of intangible assets (consolidated) are as follows:

| | 2000 HK$'000 | 1999 HK$'000 |
|---|---|---|
| **Cost** | | |
| Beginning of year | 1,669 | 1,057 |
| Additions | — | 500 |
| Translation adjustments | (436) | 112 |
| End of year | 1,233 | 1,669 |
| **Accumulated amortisation** | | |
| Beginning of year | (593) | (249) |
| Amortisation | (470) | (254) |
| Translation adjustments | 214 | (90) |
| End of year | (849) | (593) |
| **Net book value** | | |
| End of year | 384 | 1,076 |
| Beginning of year | 1,076 | 808 |

### 18. DEFERRED TAX ASSETS

Deferred tax assets (consolidated) consisted of:

| | 2000 HK$'000 | 1999 HK$'000 |
|---|---|---|
| Accumulated losses carried forward | 66,804 | 42,686 |
| Provision for doubtful debts | 4,649 | 5,879 |
| Depreciation on construction-in-progress in relation to cable television distribution network during the prematurity period | 4,105 | 1,619 |
| Others | 4,238 | 851 |
| | 79,796 | 51,035 |
| Less: Provision for unrealisable items | (43,612) | (27,551) |
| | 36,184 | 23,484 |

## 19. NON-CURRENT PREPAYMENTS AND RECEIVABLES

Non-current prepayments and receivables (consolidated) consisted of:

| | **2000** | **1999** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Advance payments for acquisition of property and equipment | 9,610 | 2,326 |
| Rental and other deposits | 4,775 | 1,602 |
| Loans to employees | 2,442 | 995 |
| Prepaid expenses | 1,080 | 1,401 |
| Indonesian income tax refundable | — | 1,013 |
| Others | 418 | 182 |
| | 18,325 | 7,519 |

## 20. DUE FROM RELATED COMPANIES

The amounts due from related companies (consolidated) consisted of:

| | **Outstanding balance as at 1st January, 2000** | **Outstanding balance as at 31st December, 2000** | **Maximum balance outstanding during the year ended 31st December, 2000** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| PT Lippo Securities Tbk | 27,720 | — | 27,720 |
| PT Multifiling Mitra Indonesia | 5,489 | 4,174 | 5,489 |
| | 33,209 | 4,174 | |

| | **Outstanding balance as at 1st January, 1999** | **Outstanding balance as at 31st December, 1999** | **Maximum balance during the year ended 31st December, 1999** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| PT Lippo Securities Tbk | — | 27,720 | 27,720 |
| PT Multifiling Mitra Indonesia | 5,697 | 5,489 | 5,697 |
| | 5,697 | 33,209 | |

These companies are directly or indirectly owned, controlled or influenced by the principal shareholders of the Company, through share ownership, management agreements or others.

During the year ended 31st December, 2000, approximately HK$1,626,000 (1999 - Nil) due from PT Multifiling Mitra Indonesia bore interest at a rate of 8% per annum. The other amounts due from related companies were unsecured, non-interest bearing and without pre-determined repayment terms.

**21. INVENTORIES**

Inventories (consolidated), representing mainly computer hardware equipment and software packages and consumer goods for trading purposes, consisted of:

| | 2000 | 1999 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Inventories, at cost | 38,958 | 19,360 |
| Less: Provision for obsolete and slow-moving inventories | (2,132) | (1,601) |
| | 36,826 | 17,759 |

**22. TRADE RECEIVABLES**

Trade receivables (consolidated) consisted of:

| | 2000 | 1999 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade receivables | 61,920 | 20,132 |
| Less: Provision for doubtful debts | (3,876) | (1,378) |
| | 58,044 | 18,754 |

Management of the Group performs ongoing credit and collectibility evaluations of each customer. Provision for potential credit losses is maintained and such losses in the aggregate have not exceeded management's projection.

**23. SHORT-TERM INVESTMENTS**

Short-term investments (consolidated) consisted of:

| | 2000 | 1999 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Listed securities, stated at quoted market value | 520 | 1,407 |
| Unlisted revenue sharing bonds | 92 | 276 |
| Others | 5 | 9 |
| | 617 | 1,692 |

**24. CASH AND BANK DEPOSITS**

Approximately HK$150,419,000 (1999 - HK$30,656,000) of the Group's cash and bank deposits (including pledged bank deposits) were denominated in Indonesian Rupiah.

## 25. LONG-TERM BANK BORROWINGS

Analysis of long-term bank borrowings (consolidated) is as follows:

| | **2000** | **1999** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Loans repayable | | |
| — within one year | 110,954 | 65,400 |
| — between two to five years | — | 93,740 |
| | 110,954 | 159,140 |
| Less: Amount repayable within one year, classified under current liabilities | (110,954) | (65,400) |
| | — | 93,740 |

The long-term bank borrowings bore interest at rates ranging from 8% to 20% per annum (1999 - 20% to 25% per annum) and were secured by 500,000,000 shares of PT Matahari Putra Prima Tbk, an associate (see Note 38).

## 26. SHORT-TERM BANK LOANS

Short-term bank loans of approximately HK$29,726,000 (1999 - Nil) bore interest at rates ranging from 7.5% to 13.5% per annum and were secured by the Group's bank deposits of approximately HK$44,579,000 (see Note 38). The remaining portion of short-term bank loans bore interest at 21% per annum and were secured by 40,000,000 shares of PT Matahari Putra Prima Tbk, an associate (see Note 38).

## 27. FINANCE LEASE OBLIGATIONS

Analysis of finance lease obligations (consolidated) is as follows:

| | **2000** | **1999** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Payable during the following period | | |
| — within one year | 7,411 | 5,031 |
| — over one year but not exceeding five years | 3,620 | 4,618 |
| Total minimum lease obligations | 11,031 | 9,649 |
| Interest | (1,364) | (925) |
| Present value of minimum obligations | 9,667 | 8,724 |
| Less: Current portion | (6,490) | (4,362) |
| | 3,177 | 4,362 |

### 28. RECEIPTS IN ADVANCE

Receipts in advance (consolidated) represented unearned revenue mainly relating to prepaid telephone calling cards, subscription fees for cable television programs received in advance, and shares administration fees received in advance.

### 29. ESTIMATED LIABILITIES FOR LOSSES OF DISCONTINUED OPERATIONS

In accordance with the agreements entered into by the Group with certain third parties with respect to the disposal of the Group's investments in PT Multipolar Pratama, PT Cipta Anekatronika and PT Gema Anekatronika, the indebtedness of these entities (including their subsidiaries) as at 30th November, 1999 and their estimated expenses until 31st December, 2001 were to be borne by the Group. With respect to the settlement of these indebtedness, the Group has the right to receive the benefits generated from the remaining assets of these entities as at 30th November, 1999, either through disposal of assets or any proceeds from the past and future claims on such assets.

### 30. DUE TO RELATED COMPANIES

Approximately HK$326,000 (1999 - Nil) of the amount due to a related company bore interest at a rate of 16% per annum. The other amounts due to related companies were unsecured, non-interest bearing and without predetermined repayment terms.

### 31. SHARE CAPITAL

| | Number of shares<br>*'000* | Amount<br>*HK$'000* |
|---|---|---|
| **Authorised** | | |
| Upon incorporation of the Company, ordinary shares of US$1 each *(a)* | 10,000 | 78,000 |
| Increase in authorised share capital *(b)* | 78,000 | 7,800 |
| Reduction in authorised share capital *(d)* | (10,000) | (78,000) |
| Increase in authorised share capital *(f)* | 149,922,000 | 14,992,200 |
| | 150,000,000 | 15,000,000 |
| **Issued and fully paid** | | |
| Upon incorporation of the Company *(a)* | — | — |
| Repurchase of shares *(c)* | — | — |
| Issued shares *(e)* | 1 | — |
| The Reorganisation *(g)* | 4,734 | 474 |
| Issue of shares through placing *(h)* | 180,000 | 18,000 |
| Capitalisation of share premium *(i)* | 4,879,880 | 487,988 |
| | 5,064,615 | 506,462 |

*Notes:*

a. Upon incorporation, the Company's authorised share capital was US$10,000,000 (equivalent to HK$78,000,000), divided into 10,000,000 ordinary shares of US$1 (equivalent to HK$7.8) each; 2 shares of US$1 each were issued at par and were fully paid in cash.

b. On 6th April, 2000, the authorised share capital of the Company was increased to US$10,000,000 (equivalent to HK$78,000,000) and HK$7,800,000 by the creation of 78,000,000 ordinary shares of HK$0.1 each.

c. On 6th April, 2000, 2 shares of US$1 each were repurchased by the Company at par.

d. On 6th April, 2000, the authorised share capital was reduced to HK$7,800,000 by cancellation of 10,000,000 ordinary shares of US$1 each.

e. On 6th April, 2000, 1,000 shares of HK$0.1 each were issued for a total cash consideration of HK$7,786,000.

f. On 17th May, 2000, the authorised share capital of the Company was increased to HK$15,000,000,000, by the creation of 149,922,000,000 ordinary shares of HK$0.1 each, ranking pari passu with the then existing shares in all respects.

g. On 5th May, 2000, 22nd May, 2000, 25th May, 2000 and 13th July, 2000, a total of 4,734,000 shares of HK$0.1 each were issued, credited as fully paid, as parts of the consideration for the Reorganisation described in Note 1.

h. On 13th July, 2000, 180,000,000 shares of HK$0.1 each were issued at HK$3.28 per share through placing, resulting in net cash proceeds of approximately HK$531,000,000.

i. On 13th July, 2000, share premium of approximately HK$487,988,000 was capitalised for issuance of approximately 4,879,880,000 shares of HK$0.1 each on pro-rata basis to the Company's shareholders before the placing described in (h) above.

The comparative figures of the Group's share capital as at 31st December, 1999 shown on the consolidated balance sheet represent the aggregate nominal value of the share capital of the Company's subsidiaries as at that date.

## 32. DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, a company's reserves are both distributable to shareholders subject to the provisions of the Company's Memorandum and Articles of Association, and provided that immediately following the distribution or payment of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, no dividend shall be declared or payable except out of the profits and reserves of the Company lawfully available for distribution. As at 31st December, 2000, such profits and reserves amounted to approximately HK$332,928,000 (1999 - Nil).

## 33. EMPLOYEE SHARE OPTIONS

### a. Pre-IPO Share Option Plan

Pursuant to the Pre-IPO Share Option Plan adopted by the Company on 22nd June, 2000, the Company granted options to employees (including Directors of the Company) of the Group to subscribe for 74,259,000 shares of the Company of HK$0.10 each at HK$3.28 each. Movements of the Pre-IPO Share Option Plan for the year ended 31st December, 2000 are as follows:

| | **Number of shares subject to the options** |
|---|---|
| Granted | 74,259,000 |
| Exercised | — |
| Lapsed | (2,373,430) |
| Outstanding as at 31st December, 2000 | 71,885,570 |

### b. Share Option Scheme

Pursuant to the Share Option Scheme adopted by the Company on 22nd June, 2000, the Company may, after its listing, grant options to employees of the Group (including Directors of the Company) to subscribe for shares of the Company, subject to a maximum of 30% of the nominal value of the issued share capital. The subscription price will be determined by the Board of Directors of the Company, and will not be less than the highest of (i) the nominal value of the shares, (ii) the average of the closing price of the shares quoted on the GEM on the five trading days immediately preceding the date of offer of the option, and (iii) the closing price of shares quoted on the GEM on the date of grant. No options under the Share Option Scheme were granted during the year ended 31st December, 2000.

## 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

**a. Reconciliation of (loss) profit before taxation to net cash outflow from operating activities is as follows:**

| | 2000 | 1999 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| (Loss) Profit before taxation | (118,190) | 23,497 |
| Share of profit of associates | (120,700) | (114,298) |
| Profit (Loss) attributable to discontinued operations | (3,197) | 30,778 |
| Interest income | (14,023) | (7,953) |
| Interest expense | 23,850 | 23,140 |
| Depreciation of property and equipment | 39,570 | 12,819 |
| Amortisation of goodwill | 25,824 | 20,607 |
| Amortisation of intangible assets | 470 | 254 |
| Net (gain) loss on disposal of property and equipment | (332) | 27 |
| Provision for impairment in value of long-term investments | 8,356 | — |
| Loss on revaluation of short-term investments | 1,075 | — |
| Increase in inventories | (19,060) | (16,542) |
| Increase in trade receivables | (29,081) | (22,669) |
| (Increase) Decrease in prepayments, deposits and other current assets | (42,061) | 3,268 |
| Increase (Decrease) in trade payables | 69,600 | (9,049) |
| Increase (Decrease) in receipts in advance | 1,224 | (480) |
| Increase in accruals and other payables | 66,816 | 35,434 |
| Increase in due to related companies | 18,191 | 235 |
| Net cash outflow from operating activities | (91,668) | (20,932) |

**b. Details of acquisitions of equity interests in subsidiaries are as follows:**

| | **2000** |
|---|---|
| | *HK$'000* |
| Property and equipment | 5,740 |
| Inventories | 7 |
| Trade receivables | 10,209 |
| Prepayments, deposits and other current assets | 3,470 |
| Cash and bank deposits | 28,543 |
| Loans from minority shareholders | (2,703) |
| Finance lease obligations | (1,622) |
| Trade payables | (8,108) |
| Accruals and other payables | (4,808) |
| Taxation payable | (46) |
| Net assets of newly acquired subsidiaries at the dates of acquisitions | 30,682 |
| Less: Minority interests | (130) |
| Group's shares on net assets acquired | 30,552 |
| Goodwill | 15,941 |
| Consideration | 46,493 |
| Satisfied by: | |
| Cash | 40,628 |
| Issuance of shares of a subsidiary *(Note 34f)* | 5,865 |
| | 46,493 |
| Cash paid | 40,628 |
| Less: Cash and bank deposits acquired | (28,543) |
| Net cash outflow | 12,085 |

**c. Details of net assets acquired as a consequence of the acquisition of additional interest in a subsidiary are as follows:**

| | **2000** |
|---|---|
| | *HK$'000* |
| Property and equipment | 2,874 |
| Inventories | 4 |
| Prepayments, deposits and other current assets | 226 |
| Cash and bank deposits | 1,037 |
| Trade payables | (5,967) |
| Accruals and other payables | (8,696) |
| Taxation payable | (88) |
| Net liabilities | (10,610) |
| Additional interest acquired of the subsidiary at the date of acquisition | 2.5% |
| Net liabilities acquired | (265) |
| Goodwill | 773 |
| Consideration paid | 508 |

**d. Analysis of changes in financing is as follows:**

| | Long-term bank borrowings *HK$'000* | Short-term bank loans *HK$'000* | Finance lease obligations *HK$000* | Minority interests *HK$'000* | Loans from associates *HK$'000* |
|---|---|---|---|---|---|
| 31st December, 1998 | 187,200 | 149,760 | 14,113 | 281,937 | — |
| Repayment of long-term bank borrowings | (28,060) | — | — | — | — |
| Repayment of short-term bank loans | — | (149,760) | — | — | — |
| Repayment of capital element of finance lease obligations | — | — | (5,389) | — | — |
| Loans from minority interests of subsidiaries | — | — | — | 68,105 | — |
| Share of profit | — | — | — | 5,114 | — |
| 31st December, 1999 | 159,140 | — | 8,724 | 355,156 | — |
| Repayment of long-term bank borrowings | (48,186) | — | — | — | — |
| New short-term bank loans | — | 40,194 | — | — | — |
| Inception of finance lease contracts | — | — | 6,160 | — | — |
| Repayment of capital element of finance lease obligations | — | — | (6,839) | — | — |
| Proceeds from issuance of shares of subsidiaries | — | — | — | 55,123 | — |
| Attributable to acquisition of subsidiaries | — | — | 1,622 | (135) | — |
| Loans from minority interests attributable to acquisition of subsidiaries | — | — | — | 2,703 | — |
| Loans from minority interests of subsidiaries | — | — | — | 3,251 | — |
| Share of profit | — | — | — | 27,909 | — |
| Increase in loans from associates | — | — | — | — | 26,016 |
| Translation adjustments | — | — | — | (101,652) | — |
| 31st December, 2000 | 110,954 | 40,194 | 9,667 | 342,355 | 26,016 |

**e. Share capital (including share premium and capital reserve)**

| | *HK$'000* |
|---|---|
| Issuance of shares | 598,186 |
| Shares issuance expenditures | (59,321) |
| Capitalisation of shareholders' loans | 148,236 |
| | 687,101 |

**f. Major non-cash transactions:**

During the year ended 31st December, 2000, 4,734,000 shares of HK$0.10 each were issued by the Company and credited as fully paid as a consideration for the Reorganisation described in Note 1.

During the year ended 31st December, 2000, shareholders' loans of approximately HK$148,236,000 were capitalised as capital reseve.

During the year ended 31st December, 2000, a subsidiary of the Group issued shares of approximately HK$5,865,000 as part of the consideration for acquisition of another subsidiary. The remaining portion of HK$40,628,000 was settled by cash (see Note 34b).

During the year ended 31st December 2000, the Group entered into finance lease arrangements in respect of certain property and equipment with a total capital value at the inception of the leases of HK$6,160,000.

## 35. PENSION SCHEMES

The Group maintained a defined contribution provident fund scheme for its employees in Hong Kong, which was managed by an independent trustee. All contributions were made by the Group at either 5% or 10% of the employees' basic salary. With the introduction of the mandatory provident fund scheme by the Government of Hong Kong SAR on 1st December, 2000, the Group's Hong Kong employees have switched from the defined contribution provident fund scheme to the mandatory provident fund, which is also managed by an independent trustee. Each of the Group and its Hong Kong employees contributes to the scheme at 5% of the employees' basic salary, with the maximum amount of contribution by each of the Group and the employee limited to HK$1,000 per month.

The Group's Indonesian subsidiaries contributed to the government's statutory insurance and retirement fund (ASTEK) at 3.7% and the Indonesian employees contributed another 2% of their basic salary. The ASTEK fund is responsible for the entire insurance claim relating to the accident incurred by the employees during work and the entire pension obligations of the retired employees.

During the year ended 31st December, 2000, the Group's Indonesian subsidiaries made accruals for employees benefits provided under the Decree of the Ministry of Manpower relating to settlement arising from employment termination and determination of severance pay, service pay and compensation. The accruals are determined based on the computation performed by an independent actuary.

During the year ended 31st December, 2000, the Group contributed approximately HK$5,941,000 (1999 - HK$465,000) to the pension schemes described above. As at 31st December, 2000, no forfeited contributions were available for the Group to reduce its future contributions.

## 36. COMMITMENTS

### a. Operating lease commitments

The Group had commitments in respect of rented premises under various non-cancelable operating lease agreements extending to December 2003.

The total amount of commitments is analysed as follows:

| | **2000** | **1999** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Amounts payable | | |
| — not exceeding one year | 16,541 | 2,564 |
| — more than one year but not exceeding two years | 5,608 | 1,160 |
| — more than two years but not exceeding five years | 7,182 | 1,483 |
| — more than five years | 5,997 | — |
| | 35,328 | 5,207 |

The amount of commitments payable within the next twelve months is analysed as follows:

| | **2000** | **1999** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Leases expiring within a period | | |
| — not exceeding one year | 8,498 | 1,092 |
| — more than one year but not exceeding two years | 2,404 | 535 |
| — more than two years but not exceeding five years | 5,202 | 937 |
| — more than five years | 437 | — |
| | 16,541 | 2,564 |

### b. Capital commitments

As at 31st December, 2000, the Group had capital commitments under signed contracts for the acquisition of property and equipment (mainly consisted of broadband communication network, cellular telecommunication network and leasehold improvements) amounting to approximately HK$172,327,000 (1999 - HK$6,200,000).

## 37. CONTINGENT LIABILITY

As at 31st December, 2000, the Group provided a corporate guarantee of approximately HK$134,420,000 to a vendor for supplying system hardware, licensing of certain firmware and software, and provision for ancillary services.

## 38. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31st December, 2000, the Group had aggregate banking facilities of approximately HK$162,904,000 (1999 - HK$159,140,000) for short-term and long-term loans and bank guarantees. All of which were utilised as at the same date (1999 - All). These facilities were secured by:

(i) the Group's bank deposits of approximately HK$44,579,000 as at 31st December, 2000 (1999 - HK$3,594,000); and

(ii) the Group's 540,000,000 shares in PT Matahari Putra Prima Tbk, an associate, with a quoted market value of approximately HK$219,469,000 as at 31st December, 2000 (see Note 14).

## 39. FINANCIAL INSTRUMENTS

The carrying amounts of the Group's cash and bank deposits, pledged bank deposits, trade receivables, short-term investment, short-term bank loans, finance lease obligations and trade payables approximate their fair values because of the short maturity of these instruments. As at 31st December, 2000, long-term bank borrowings were approximately HK$110,954,000 determined based on current market interest rates for comparable instruments. As at the same date, the book value of these liabilities was approximately HK$110,954,000.

There is no quoted market price for the Company's investment in unlisted subsidiaries and the Group's long-term investments. Accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

## 40. CONCENTRATION OF RISK

### (a) Credit risk

The carrying amounts of cash and bank deposits, pledged bank deposits, trade receivables, prepayments, deposits, other current assets and non-current assets, except for deferred tax assets, represent the Group's maximum exposure to credit risk in relation to financial assets. No other financial assets carry a significant exposure to credit risk.

### (b) Economic risk

A significant portion of the Group's operations may be adversely affected by significant political, economic uncertainties in Indonesia. Further, given the early stages of the Group's regional expansion efforts, there was no certainty that the Group's regional expansion plans will be successfully executed.

### (c) Currency risk

A substantial portion of the Group's revenue and cost of sales and services rendered were denominated in US Dollars and Indonesian Rupiah. The Group also generated expenses and liabilities in US Dollars and Indonesian Rupiah. As a result, the Group was required to convert Indonesian Rupiah into other currencies, particularly US Dollars, to meet its foreign exchange liabilities as they became due. Any adverse movement in the exchange rate of Indonesian Rupiah against the US Dollars would have an adverse effect on the results of the Group.

Further, the Indonesian government may decide to introduce a scheme of exchange controls or other currency controls with a view to stabilising the exchange rate of the Indonesian Rupiah. The imposition of any such exchange controls may adversely affect the ability of the Group to exchange Indonesian Rupiah denominated revenue into US Dollars or other foreign currency denominated liabilities and may adversely affect the Group's financial condition.

**(d) Business risk**

Majority of the Group's businesses were in an early stage of implementation, and the revenue, potential income and cash flows from these new businesses are unproven. The success of the Group's business strategies would also depend on many factors outside its control. Accordingly, evaluation of the Group's businesses and its prospects was difficult, and there could be no assurance that the Group would succeed in these businesses.

**(e) Interest rate risk**

The interest rates and terms of repayment of long-term bank borrowings and short-term bank loans of the Group are disclosed in Notes 25 and 26 to the accompanying financial statements respectively.

## 41. SEGMENT INFORMATION

**(a) Business segments**

(i) Analysis of the Group's results of operations for the year ended 31st December, 1999 by business segment is as follows:

| | Fixed line broadband communication services | Cellular communi-cation services | Internet enabling services | E-Commerce | Others | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 26,316 | 6,658 | 239,935 | — | — | 272,909 |
| Profit (Loss) before share of profit of associates and profit (loss) attributable to discontinued operations | 3,333 | (1,045) | (62,311) | — | — | (60,023) |
| Depreciation of property and equipment | 6,679 | 1,512 | 4,628 | — | — | 12,819 |
| Bad debt expenses/ Provision for doubtful debts | 266 | — | 1,913 | — | — | 2,179 |
| Amortisation of goodwill/ intangible assets | — | — | 20,861 | — | — | 20,861 |

(ii) Analysis of the Group's results of operations for the year ended 31st December, 2000 by business segment is as follows:

| | Fixed line broadband communication services | Cellular communi-cation services | Internet enabling services | E-Commerce | Others | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 53,975 | 7,141 | 318,993 | 11,811 | — | 391,920 |
| Loss before share of profit of associates and profit (loss) attributable to discontinued operations | (44,299) | (14,245) | (83,249) | (47,864) | (52,430) | (242,087) |
| Depreciation of property and equipment | 20,923 | 1,604 | 12,289 | 3,985 | 769 | 39,570 |
| Bad debt expenses/ Provision for doubtful debts | 1,879 | 22 | 1,973 | — | — | 3,874 |
| Amortisation of goodwill/ intangible assets | — | — | 22,311 | 3,950 | 33 | 26,294 |

(iii) Analysis of the Group's turnover by business segment is as follows:

| | 2000 *HK$'000* | | | 1999 *HK$'000* | | |
|---|---|---|---|---|---|---|
| | Sales to external customers | Sales to internal customers | Total | Sales to external customers | Sales to internal customers | Total |
| Fixed line broadband communication services | 53,975 | — | 53,975 | 26,316 | — | 26,316 |
| Cellular communication services | 7,141 | — | 7,141 | 6,658 | — | 6,658 |
| Internet enabling services | 290,825 | 28,168 | 318,993 | 207,038 | 32,897 | 239,935 |
| E-Commerce | 11,811 | — | 11,811 | — | — | — |
| | 363,752 | 28,168 | 391,920 | 240,012 | 32,897 | 272,909 |

(iv) Analysis of the financial position of the Group as at 31st December, 1999 by business segment is as follows:

| | Fixed line broadband communication services | Cellular communi-cation services | Internet enabling services | E-Commerce | Others | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Non-current assets | 198,035 | 5,060 | 991,907 | — | — | 1,195,002 |
| Property and equipment | | | | | | |
| Cost | 199,473 | 8,374 | 40,344 | — | — | 248,191 |
| Less: accumulated depreciation | (7,267) | (3,411) | (25,591) | — | — | (36,269) |
| Net book value | 192,206 | 4,963 | 14,753 | — | — | 211,922 |
| Current assets | 20,274 | 2,410 | 85,008 | — | — | 107,692 |
| Current liabilities | 22,690 | 11,932 | 379,885 | — | — | 414,507 |
| Non-current liabilities | — | — | 98,102 | — | — | 98,102 |
| Capital expenditures | 183,124 | 325 | 3,358 | — | — | 186,807 |

(v) Analysis of the financial position of the Group as at 31st December, 2000 by business segment is as follows:

| | Fixed line broadband communication services | Cellular communi-cation services | Internet enabling services | E-Commerce | Others | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Non-current assets | 319,965 | 42,490 | 905,323 | 49,679 | 60,892 | 1,378,349 |
| Property and equipment | | | | | | |
| Cost | 321,428 | 44,771 | 97,562 | 41,689 | 4,015 | 509,465 |
| Less: accumulated depreciation | (23,958) | (3,971) | (28,511) | (3,758) | (769) | (60,967) |
| Net book value | 297,470 | 40,800 | 69,051 | 37,931 | 3,246 | 448,498 |
| Current assets | 31,349 | 41,979 | 172,334 | 23,189 | 137,315 | 406,166 |
| Current liabilities | 99,330 | 11,310 | 444,379 | 33,362 | 11,212 | 599,593 |
| Non-current liabilities | 1,352 | — | 401 | 1,424 | — | 3,177 |
| Capital expenditures | 168,953 | 44,663 | 67,855 | 40,518 | 4,010 | 325,999 |

**(b) Geographical locations**

(i) Analysis of turnover by geographical location is as follows:

| | 2000 HK$'000 | | | 1999 HK$'000 | | |
|---|---|---|---|---|---|---|
| | **Sales to external customers** | **Sales to internal customers** | **Total** | **Sales to external customers** | **Sales to internal customers** | **Total** |
| Indonesia | 351,636 | 28,168 | 379,804 | 240,012 | 32,897 | 272,909 |
| Singapore & Malaysia | 12,096 | — | 12,096 | — | — | — |
| Others | 20 | — | 20 | — | — | — |
| | 363,752 | 28,168 | 391,920 | 240,012 | 32,897 | 272,909 |

(ii) Analysis of the financial position of the Group as at 31st December, 2000 by geographical location is as follows:

| | **Indonesia** *HK$'000* | **Singapore & Malaysia** *HK$'000* | **Others** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| Non-current assets | 1,290,142 | 12,155 | 76,052 | 1,378,349 |
| Property and equipment | | | | |
| Cost | 496,988 | 2,551 | 9,926 | 509,465 |
| Less: accumulated depreciation | (60,774) | (186) | (7) | (60,967) |
| Net book value | 436,214 | 2,365 | 9,919 | 448,498 |
| Current assets | 253,153 | 11,922 | 141,091 | 406,166 |
| Currents liabilities | 580,046 | 10,317 | 9,230 | 599,593 |
| Non-current liabilities | 2,795 | 382 | — | 3,177 |
| Capital expenditures | 311,698 | 4,374 | 9,927 | 325,999 |

All assets and liabilities of the Group as at 31st December, 1999 were located in Indonesia.

**42. ULTIMATE HOLDING COMPANY**

The Directors of the Company consider Lippo Cayman Limited, a company incorporated in the Cayman Islands, to be the ultimate holding company.

**43. SUBSEQUENT EVENT**

The following significant transaction took place subsequent to 31st December, 2000 and up to the date of this report:

On 17th January, 2001, pursuant to the Share Option Scheme, the Company granted options to employees of the Group to subscribe for 5,120,258 shares of the Company at a price of HK$3.11 per share, exercisable in batches from respective commencement dates during the period from 1st July, 2001 to 21st June, 2010.

## 2. FIRST QUARTERLY RESULTS

The following are the unaudited consolidated results of the AAM Group for the three months ended 31st March, 2001 together with comparative figures for the corresponding period ended 31st March, 2000, extracted from the AAM Group's first quarterly report for the three months ended 31st March, 2001:—

| | | Three months ended 31st March | |
|---|---|---|---|
| | | **2001** | **2000** |
| | *Notes* | *HK$'000* | *HK$'000* |
| Turnover | 2 | 120,191 | 84,430 |
| Cost of sales and services rendered | | (90,658) | (56,068) |
| Gross profit | | 29,533 | 28,362 |
| Other revenue | | 165 | 4,198 |
| Selling and distribution expenses | | (13,887) | (2,082) |
| General and administrative expenses | | (81,098) | (28,349) |
| (Loss) Profit from operations | | (65,287) | 2,129 |
| Interest income | | 3,112 | 830 |
| Interest expense | | (3,731) | (13,098) |
| Loss before share of profit of associates | | (65,906) | (10,139) |
| Share of profit of associates | | 20,392 | 37,791 |
| (Loss) Profit before taxation | | (45,514) | 27,652 |
| Taxation | 3 | (2,726) | (21,806) |
| (Loss) Profit after taxation but before minority interests | | (48,240) | 5,846 |
| Minority interests | | (4,826) | (7,500) |
| Loss attributable to shareholders | | (53,066) | (1,654) |
| Loss per share — Basic | 4 | HK cents (1.05) | HK cents (0.04) |

*Notes:*

1. **Basis of presentation**

The Company was incorporated in the Cayman Islands on 6th March, 2000 as an exempted company with limited liability under the Companies Law (1998 Revision) of the Cayman Islands. The Company's shares have been listed on the GEM of the Stock Exchange since 13th July, 2000.

On 22nd May, 2000, the Company became the holding company of the other companies comprising the Group pursuant to a group reorganisation (the "Reorganisation"). The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the comparative figures for the three months ended 31st March, 2000 have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout that period, rather than from the date on which the Reorganisation was completed.

The unaudited consolidated results are prepared in accordance with International Accounting Standards issued by International Accounting Standards Committee. Significant transactions and balances among the companies comprising the Group have been eliminated on consolidation.

2. **Turnover**

An analysis of the Group's turnover during the periods is set out below:

| | **Three months ended 31st March** | |
|---|---|---|
| | **2001** | **2000** |
| | *HK$'000* | *HK$'000* |
| Fixed Line Broadband Communication Services | 21,701 | 9,304 |
| Cellular Communication Services | 1,583 | 3,020 |
| Internet Enabling Services | 88,555 | 71,919 |
| E-Commerce | 8,352 | 187 |
| | 120,191 | 84,430 |

**3. Taxation**

Taxation consisted of :

| | Three months ended 31st March | |
|---|---|---|
| | **2001** | **2000** |
| | *HK$'000* | *HK$'000* |
| Provision for current taxation: | | |
| The Company and its subsidiaries | (2,888) | (9,910) |
| Associates | (3,741) | (11,896) |
| | (6,629) | (21,806) |
| (Provision for) Write-back of deferred taxation: | | |
| The Company and its subsidiaries | 6,958 | — |
| Associates | (3,055) | — |
| | 3,903 | — |
| | (2,726) | (21,806) |

During the periods covered by this Report, substantially all of the Group's profit was derived from subsidiaries and associates incorporated and operating in Indonesia. These, subsidiaries and associates were subject to Indonesian income tax at a maximum of 30% of the individual entities respective assessable profits in accordance with the Indonesian income tax law.

No provision for Hong Kong profits tax was made as the Group had no assessable profits arising in or derived from Hong Kong.

**4. Loss per share**

The calculation of basic loss per share is based on the loss attributable to shareholders for the respective periods and on the weighted average number of 5,064,615,000 and 4,627,559,000 shares deemed to be in issue during the three months ended 31st March, 2001 and 31st March, 2000 respectively, on the assumption that the Reorganisation had been completed on 1st January, 1999.

Diluted loss per share for the period ended 31st March, 2001 is not presented because the effect was anti-dilutive. Diluted loss per share for the period ended 31st March, 2000 is not presented because there were no dilutive shares in existence.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. Information relating to the AAM Group was obtained from public records. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

(a) the information contained in this circular relating to the Company is accurate and complete in all material respects and not misleading;

(b) there are no other matters the omission of which would make any statement in this circular relating to the Company misleading; and

(c) all opinions expressed in this circular relating to the Company have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors and the chief executives of the Company in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which were notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they were taken or deemed to have under Section 31 of, or Part 1 of the Schedule to, the SDI Ordinance), or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### (a) Ordinary Shares

| Name | Type of interest | Attributable interest to the Director | Number of Shares | Total number of Shares |
|---|---|---|---|---|
| Mr. Andrew Cho Fai Yao | — Corporate interest held by TN Development *(Note 1)* | deemed interest (indirectly) | 232,163,600 | |
| | — Corporate interest held by Huge Top *(Note 2)* | more than one-third (indirectly) | 159,811,344 | |
| | — Corporate interest held by VSC BVI *(Note 3)* | through Huge Top (indirectly) | 278,000,000 | |
| | — Corporate interest held by Right Action *(Note 4)* | 100% (directly) | 102,400,000 | 772,374,944 |
| Ms. Miriam Che Li Yao | — Corporate interest held by TN Development *(Note 1)* | deemed interest (indirectly) | 232,163,600 | |
| | — Corporate interest held by Huge Top *(Note 2)* | more than one-third (indirectly) | 159,811,344 | |
| | — Corporate interest held by VSC BVI *(Note 3)* | through Huge Top (indirectly) | 278,000,000 | 669,974,944 |
| Mr. Philip King Huen Ma | — Corporate interest held by S & S Management Co. Ltd ("S & S") *(Note 5)* | — | 159,324 | 159,324 |

*Notes:*

1. As at the Latest Practicable Date, TN Development owns 232,163,600 Shares. VSC BVI owns 54% of the issued share capital of TN Development and Andrew Cho Fai Yao owns 10% of the issued share capital of TN Development. The board of directors of TN Development only comprises Andrew Cho Fai Yao and Miriam Che Li Yao. These interests of the aforesaid Directors in the issued Shares were corporate interests.

   All Shares held by TN Development are, or are intended to be, the subject of options exercisable, in certain circumstances, by designated employees and founding members pursuant to the share option agreements and the revenue option agreements, respectively as disclosed in the Company's prospectus dated 14th April, 2000. The sole purpose of TN Development is to provide an avenue to motivate the Company's employees and founding members while at the same time not incurring any dilution effect to the public investors of the Company.

2. As at the Latest Practicable Date, Huge Top owns 159,811,344 Shares. Andrew Cho Fai Yao directly and indirectly owns more than one-third of the issued share capital of Huge Top. The board of directors of Huge Top only comprises Andrew Cho Fai Yao and Miriam Che Li Yao. These interests of the aforesaid Directors in the issued Shares were corporate interests.

3. As at the Latest Practicable Date, VSC BVI owns 278,000,000 Shares and Huge Top owns approximately 57.59% of the issued share capital of VSC. Andrew Cho Fai Yao and Miriam Che Li Yao are directors of VSC. VSC BVI is a wholly-owned subsidiary of VSC. The board of directors of VSC BVI comprises Andrew Cho Fai Yao and Miriam Che Li Yao. These interests of the aforesaid Directors in the issued Shares were corporate interests.

4. As at the Latest Practicable Date, Right Action owns 102,400,000 Shares. Andrew Cho Fai Yao owns the entire issued share capital of Right Action and is also the sole director of that company. These interests were corporate interests in the Company.

5. As at the Latest Practicable Date, S & S owns 159,324 Shares. Philip King Huen Ma is deemed to be interested in these 159,324 Shares.

## (b) Employee options to purchase Shares from TN Development:

| **Name** | **Shares to be acquired under the employee options** |
|---|---|
| Ms. Drina C. Yue *(Note 1)* | 30,720,000 |
| Mr. Daniel Takuen Shih *(Note 1)* | 2,000,000 |

*Note:*

1. Each of Drina C. Yue and Daniel Takuen Shih has been granted an option to purchase 30,720,000 Shares and 2,000,000 Shares respectively from TN Development, at an exercise price per Share of HK$0.054, under separate share option agreements both dated 13th April, 2000. The option shall vest starting on 13th April, 2001 and may be exercised in whole or in part in the following manner:

   (a) During the period starting from 13th April, 2001 to 12th April, 2002, the option may be exercised up to one-third of such Shares.

   (b) During the period starting from 13th April, 2002 to 12th April, 2003, the option may (to the extent not be exercised in accordance with (a) above) be exercised up to two-thirds of such Shares.

   (c) During the period starting from 13th April, 2003 to 12th April, 2004, the option may (to the extent not be exercised in accordance with (a) and (b) above) be exercised in full.

(c) Pursuant to the Share Option Scheme, the share options granted to and held by the Directors up to the Latest Practicable Date were as follows:

| Name | Date of grant | Exercise price per Share | Exercise period | Number of share options |
|---|---|---|---|---|
| Ms. Drina C. Yue | 3rd July, 2000 | HK$0.360 | 1st October, 2001 to 12th April, 2010 | 2,000,000 |
| | 7th November, 2000 | HK$0.485 | 8th November, 2001 to 12th April, 2010 | 5,000,000 |
| Ms. Miriam Che Li Yao | 3rd July, 2000 | HK$0.360 | 1st October, 2001 to 12th April, 2010 | 2,500,000 |
| | 7th November, 2000 | HK$0.485 | 8th November, 2001 to 12th April, 2010 | 5,000,000 |
| Mr. Andrew Cho Fai Yao | 7th November, 2000 | HK$0.485 | 8th November, 2001 to 12th April, 2010 | 5,000,000 |

Other than disclosed above, as at the Latest Practicable Date, neither the Directors nor their Associates, had any interests in any equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and neither the Directors nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

## 3. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

Save as disclosed in Note 3 to the financial statements of the Group in Appendix I, no contract or arrangement of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.

Save as disclosed herein, none of the Directors has any direct or indirect interest in any assets which have been, since 31st March, 2001, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

## 4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance, those shareholders (other than those interests of Directors disclosed above) having an interest of 10% or more of the issued share capital of the Company are as follows:

| Name | | Number of Shares | Total number of Shares | Notes |
|---|---|---|---|---|
| VSC BVI | — directly | 278,000,000 | | |
| | — indirect deemed interest through TN Development | 232,163,600 | 510,163,600 | 1 |
| VSC | — indirectly through VSC BVI | 278,000,000 | | |
| | — indirect deemed interest through TN Development | 232,163,600 | 510,163,600 | 1 & 2 |
| Huge Top | — directly | 159,811,344 | | |
| | — indirectly through VSC BVI | 278,000,000 | | |
| | — indirect deemed interest through TN Development | 232,163,600 | 669,974,944 | 1, 2 & 3 |
| TN Development | — directly | 232,163,600 | 232,163,600 | 4 |
| Mr. Leroy Lin Yuen Kung | — indirectly through Grand Bridge | 204,800,000 | 204,800,000 | 5 |
| Galaface Limited | — indirectly through Grand Bridge | 204,800,000 | 204,800,000 | 5 |
| Asian Gold Associates Limited | — indirectly through Grand Bridge | 204,800,000 | 204,800,000 | 5 |
| iMerchants Group Limited | — indirectly through Grand Bridge | 204,800,000 | 204,800,000 | 5 |
| Grand Bridge | — directly | 204,800,000 | 204,800,000 | 5 |

*Notes:*

1. VSC BVI owns 54% of the share capital of TN Development and is deemed to be interested in the 232,163,600 Shares held by TN Development. VSC BVI directly owns 278,000,000 Shares. VSC BVI is therefore interested in an aggregate of 510,163,600 Shares.

2. VSC owns the entire issued share capital of VSC BVI, VSC is therefore deemed to be interested in an aggregate of 510,163,600 Shares.

3. Huge Top is beneficially interested in approximately 57.59% of the issued share capital of VSC as at the Latest Practicable Date and is therefore deemed to be interested in the 232,163,600 Shares held by TN Development and the 278,000,000 Shares held by VSC BVI. Huge Top also directly owns 159,811,344 Shares. Huge Top is therefore interested in an aggregate of 669,974,944 Shares.

4. All Shares held by TN Development are, or are intended to be, the subject of options exercisable, in certain circumstances, by designated employees and founding members pursuant to the share option agreements and the revenue option agreements, respectively as disclosed in the Company's prospectus dated 14th April, 2000. The sole purpose of TN Development is to provide an avenue to motivate the Company's employees and founding members while at the same time not incurring any dilution effect to the public investors of the Company.

5. Grand Bridge directly owns 204,800,000 Shares. Grand Bridge is a wholly-owned subsidiary of iMerchants Group Limited which is a wholly-owned subsidiary of Asian Gold Associates Limited ("AGA"). AGA is a company in which Galaface Limited is entitled to exercise more than one-third of its voting power. Galaface Limited is a company owned and controlled by Mr. Leroy Lin Yuen Kung.

## 5. SPONSOR'S INTERESTS

As at the Latest Practicable Date, as updated and notified by the Company's sponsor, BNP Paribas Peregrine Capital Limited (the "Sponsor"), an associated company of the Sponsor held 2,500,000 Shares in the Company, representing approximately 0.16% of the issued share capital of the Company.

Save as disclosed herein, neither the Sponsor nor any of its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) has any interests in the securities of the Company, including options or rights to subscribe for such securities.

Pursuant to the agreement entered into between the Company and the Sponsor dated 14th April, 2000, the Sponsor will receive a fee for acting as the Company's retained sponsor for the period from 20th April, 2000 to 30th April, 2003.

## 6. DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Ralph David Oppenheimer, is a non-executive director of the Company, and is the chairman and chief executive of Stemcor Holdings Limited whose business is principally engaged in international steel trading. The Directors believe that there is a risk that such business may compete with those of the Group. However, the Directors are also of the view that the invaluable experience of Mr. Oppenheimer in the steel industry will complement the development of the Group's business.

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business which competes or may compete with the business of the Group.

## 7. MATERIAL CONTRACTS

The material contracts which have been entered into by members of the Group within 2 years immediately preceding the date of issue of this circular, which were not entered into in the ordinary course of business are as follows:

(a) the Sale and Purchase and Subscription Agreement;

(b) a placing agreement dated 29th March, 2000, between the Company and Li Ka Shing Foundation Limited pursuant to which Li Ka Shing Foundation Limited conditionally agreed to subscribe for 72,000,000 new Shares in cash at a subscription price of HK$0.80 per Share;

(c) an asset transfer agreement dated 13th April, 2000, between iSteelAsia (Hong Kong) Limited and iSteelAsia Limited pursuant to which iSteelAsia (Hong Kong) Limited acquired certain source codes and programs for the operation and maintenance of the iSteelAsia.com website from iSteelAsia Limited for an aggregate consideration of US$500,000. The consideration was left as an outstanding inter-company debt due and payable by iSteelAsia (Hong Kong) Limited to iSteelAsia Limited;

(d) a business transfer agreement dated 13th April, 2000 between Van Shung Chong Hong Limited and MetalAsia (Hong Kong) Limited pursuant to which Van Shung Chong Hong Limited transferred to MetalAsia (Hong Kong) Limited its steel trading business for an aggregate consideration of HK$3,000,000 which was satisfied by the allotment and issue of one share with a par value of HK$1.00 in MetalAsia (Hong Kong) Limited, credited as fully paid, to VSC BVI;

(e) a business transfer agreement dated 13th April, 2000 between VSC (Far East) Limited and MetalAsia (Hong Kong) Limited pursuant to which VSC (Far East) Limited transferred to MetalAsia (Hong Kong) Limited its steel trading business for an aggregate consideration of HK$500,000, which was satisfied by the allotment and issue of one share with a par value of HK$1.00 in MetalAsia (Hong Kong) Limited , credited as fully paid, to VSC BVI;

(f) an agreement dated 13th April, 2000 between Right Action, Strengthen Melody Inc., Lee Tat Services Limited, Oboe, VSC BVI, Grand Bridge and TN Development (as transferors), VSC, iMerchants Group Limited. Andrew Cho Fai Yao, Yao Lin Shiu Mei, Liang Ho Hang Chong Sophia and Moses Kwok Tai Tsang (as warrantors) and the Company (as transferee) pursuant to which the Company acquired the entire issued share capital of MetalAsia Holdings Limited and iSteelAsia Holdings Limited. In consideration of such transfers, the Company allotted and issued 184,000, 110,400, 92,000, 92,000, 12,000, 368,000 and 441,600 shares with a par value of HK$0.10 each to Right Action, Strengthen Melody Inc., Lee Tat Services Limited, Oboe, VSC BVI, Grand Bridge and TN Development respectively, credited as fully paid, and the Company credited as fully paid at par, the 1,000,000 nil paid shares with a par value of HK$0.10 each issued to VSC BVI on 21st February, 2000;

(g) a sub-tenancy agreement dated 13th April, 2000 between iSteelAsia (Hong Kong) Limited and CFY Enterprises Limited, a wholly-owned subsidiary of VSC pursuant to which CFY Enterprises Limited agreed to sub-let a portion of the office premises at 52nd Floor, The Center, 99 Queen's Road Central, Hong Kong for a fixed term of three months commencing on 1st April, 2000 and thereafter on the basis of a monthly tenancy which may be terminated by iSteelAsia (Hong Kong) Limited giving one month's notice, at a monthly rent (excluding rates, management fees and utilities charges but inclusive of initial renovation of the premises) of HK$155,000. This sub-tenancy agreement terminated with effect from the close of business of 31st May, 2001;

(h) an outsourcing agreement dated 13th April, 2000 between iSteelAsia (Hong Kong) Limited and iMerchants Limited pursuant to which iMerchants Limited agreed to provide, inter alia, maintenance services for both hardware and software used for the businesses carried on by iSteelAsia (Hong Kong) Limited or its affiliates and to provide certain specified man-day of enhancement services;

(i) a conditional underwriting agreement dated 14th April, 2000 between, inter alia, the Company, the Sponsor and the underwriters in relation to the placing of 100,000,000 new Shares at HK$1.08 each;

(j) a deed of indemnity dated 14th April, 2000 executed by VSC, Andrew Cho Fai Yao, Yao Lin Shiu Mei, Liang Ho Hang Chong Sophia, Moses Kwok Tai Tsang, Huge Top and TN Development in favour of the Group containing, inter alia, estate duty indemnities;

(k) a sponsor agreement dated 14th April, 2000 between the Sponsor and the Company pursuant to which the Sponsor will receive a fee for acting as the Company's retained sponsor for the period from 20th April, 2000 to 30th April, 2003;

(l) a subscription agreement dated 1st December, 2000 between iSteelAsia (Stemcor) Holdings Limited, the Company and Stemcor Holdings Limited pursuant to which iSteelAsia (Stemcor) Holdings Limited agreed to subscribe for 205,977 shares in the capital of Stemcor Holdings Limited at a cash consideration of US$3 million; and

(m) a sub-tenancy agreement dated 21st June, 2001 between iSteelAsia (Hong Kong) Limited and CFY Enterprises Limited, a wholly-owned subsidiary of VSC pursuant to which CFY Enterprises Limited agreed to sub-let a portion of the office premises at 52nd Floor, The Center, 99 Queen's Road Central, Hong Kong for a fixed term of 2 years commencing on 1st June, 2001 at a monthly rent (excluding rates, air-conditioning and management charges) of HK$50,000.

## 8. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

## 9. SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company commencing from 1st April, 2000 in the case of Mr. Andrew Cho Fai Yao, 1st March, 2000 in the case of Ms. Drina C. Yue and 1st April, 2000 in the case of Ms. Miriam Che Li Yao. The term of each agreement is continuous unless terminated by not less than three months' notice in writing served by either party on the other without payment of compensation other than statutory compensation.

Save as disclosed above, none of the Directors has a service contract with the Company which is not determinable by the employing company within one year without payment of compensation other than statutory compensation.

## 10. GENERAL

(a) The head office and principal place of business of the Company is at 52nd Floor, The Center, 99 Queen's Road Central, Hong Kong. The Hong Kong branch share registrar and transfer office of the Company is Central Registration Hong Kong Limited at 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(b) The Qualified Accountant appointed under Rule 5.10 of the GEM Listing Rules of the Company is Ms. Lee Wing Chee. Ms Lee is an associate member of both the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants.

(c) The Compliance Officer of the Company appointed under Rule 5.14 of the GEM Listing Rules is Ms. Drina C. Yue. Ms. Yue holds a bachelor degree in electrical engineering and a master degree in computer science from the University of Illinois, Urbana.

(d) The Company Secretary of the Company is Ms. Tse Sau Wai. Ms. Tse is a Fellow of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.

(e) The Company has established an audit committee with written terms of reference based upon guidelines recommended by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the Company's annual reports and quarterly reviews and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee comprises two members, namely Mr. Yeung Kwok Keung and Mr. Philip King Huen Ma, both of them are independent non-executive Directors, further details of whom are set out below:

Mr. Yeung Kwok Keung has been engaged in international transportation and logistics since the early 1970s. He joined the Group in March 2000. He has been involved with the design, development and management of some of the world's largest automated high capacity air cargo facilities in the last 25 years. He has also been involved in the innovative application of information technology to the air cargo industry and in the promotion of its use in his professional and public capacities. Mr. Yeung is the chief operating officer of EC.com Limited.

Mr. Philip King Huen Ma is the group managing director of The Sincere Company Limited, a listed company on the Stock Exchange. He joined the Group in March 2000. Mr. Ma holds a master of business administration degree from McMaster University in Canada. Mr. Ma is also very active in his community services and serves on many Government committees, including Economic Advisory Committee and Tourism Strategy. Mr. Ma was the Chairman of the Hong Kong Retail Management Association ("HKRMA") from 1996-2000. HKRMA is the major association representing Hong Kong's retail industry with over 600 member companies which employs over 200,000 people.

(f) As at the Latest Practicable Date, the authorised share capital of the Company was HK$400,000,000 divided into 4,000,000,000 Shares of HK$0.10 each.

(g) Dealings in the Shares may be settled through the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited, and investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangement and how such arrangements will affect their rights and interests.

## 11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company at 52nd Floor, The Center, 99 Queen's Road Central, Hong Kong during normal business hours on any Business Day from the date of this circular until 29th August, 2001:

(a) the memorandum of association and bye-laws of the Company;

(b) the material contracts referred to in the section headed "Material Contracts" of this appendix;

(c) the service contracts referred to in the section headed "Service Contracts" of this appendix;

(d) the circular of the Company issued to the Shareholders on 22nd December, 2000 in relation to the subscription of new shares in Stemcor Holdings Limited.

(e) the annual report of the Company for the year ended 31st March, 2001;

(f) the annual report of the Company for the year ended 31st March, 2000;

(g) the annual report of AAM for the year ended 31st December, 2000;

(h) the prospectus of the Company dated 14th April, 2000;

(i) the prospectus of AAM dated 6th July, 2000;

(j) the first quarterly report of AAM for the three months ended 31st March, 2001; and

(k) the first quarterly results announcement of the Company for the three months ended 30th June, 2001.

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